HEARING ON H.R. 818, THE COMMUNITY SERVICES EMPOWERMENT AMENDMENTS OF 1993, AND THE ROLE OF COMMUNITY DEVELOPMENT CORPORATIONS IN REBUILDING LOW-INCOME COMMUNITIES

HEARING

BEFORE THE

SUBCOMMITTEE ON HUMAN RESOURCES

OF THE

COMMITTEE ON EDUCATION AND LABOR
HOUSE OF REPRESENTATIVES

ONE HUNDRED THIRD CONGRESS

FIRST SESSION

HEARING HELD IN WASHINGTON, DC, APRIL 27, 1993

Serial No. 103–12

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HEARING ON H.R. 818, THE COMMUNITY SERVICES EMPOWERMENT AMENDMENTS OF 1993, AND THE ROLE OF COMMUNITY DEVELOPMENT CORPORATIONS IN REBUILDING LOW-INCOME COMMUNITIES

TUESDAY, APRIL 27, 1993

U.S. House of Representatives,
Subcommittee on Human Resources,
Committee on Education and Labor,
Washington, DC.

The subcommittee met, pursuant to notice, at 9:40 a.m., Room 2261, Rayburn House Office Building, Hon. Matthew G. Martinez, Chairman, presiding.

Members present: Representatives Martinez, Kildee, Scott, Woolsey, Owens, Baesler, Molinari, and Barrett.

Also present: Representatives Payne, Dixon, and Wheat.

Staff present: Lester Sweeting, staff director/counsel; Terry Deshler, legislative assistant; Alan Lopatin, general counsel, Education and Labor Committee; Lee Cowen, minority staff, Education and Labor Committee; Mark Whitacker, legislative assistant to Representative Barrett; and Allison Herwitt, legislative assistant to Representative Molinari.

Chairman Martinez. Since we have the required number to start the hearing, I am going to go ahead and get it started, and hopefully other members will be joining us shortly.

I would like to first read my opening statement and then ask Mr. Kildee if he has a statement at this time, too. As we all know, today's hearing has been scheduled to examine the strategies for revitalizing the economy in the country's low-income communities. By no means do we envision that this one effort will correct all of the problems that we have out there today, but it will go a long way towards doing a lot in the communities that we care about.

We will be hearing from those who have been doing this particular thing for some time quite successfully, with what I consider very limited resources. We will discuss the legislation that I introduced which I believe will enhance and expand the efforts of these people.

As we all know, Americans, in the last election, turned out in record numbers to express a couple of things: first, their displeasure with government in general, and specifically with the state of the economy. Today we will be talking about a problem that wasn't

really caused by either one of these alone and certainly can't be solved by either one of these alone.

I'm talking about the resurrection of a dying economy and, more specifically, the economic revival of low-income communities, neighborhoods and communities like I represent and probably Mr. Kildee and several others of us represent.

Government alone does not cause the deterioration of the Nation's low-income urban and rural communities. The despair, the hopelessness, the crime, the capital flight, and a weak economy, they all play a role, but government's lack of interest in domestic problems and inaction in the last 12 years, I believe, have allowed the problem to become catastrophic.

But government can't solve this situation alone; it can only provide seed money and create incentives for people in communities to help themselves. Call it investment, like Clinton does, or "Seed & Weed" like Bush did, it doesn't matter, we have to do it. We have to take those Great Society programs of the 1960s, at least the ones that worked, and redefine them and fully fund them, something that wasn't done in the 1960s.

There are those shortsighted people who believe that the downturn of the economy caused all the problems in low-income communities. That's not entirely true. The lack of adequate social services and adequate investments in people and fiscal resources, indifference to the needs of the community, and cultural and racial stratification all have contributed. Years of neglect of communities for the sake of international trappings and power were even greater contributors.

And like government, the economy cannot solve the problem alone. The idea that a robust economy will raise all the financial boats at once was certainly a great idea, a grand idea, but it was not true during the 1980s, and it's not true now. Rebuilding America's low-income communities requires a partnership of both government and the private sector. Relying on one or the other simply will not work.

But it also requires inclusion of those who live in the low-income neighborhoods. Without their full inclusion, cooperation, and commitment, there will be no changes in these communities. Indeed, the role of either the government or the private sector can only be to enhance the sweat effort of local entrepreneurs and businessmen and women.

Over the last decade, over the last several decades, in fact, community development corporations have accomplished a great deal through comprehensive partnerships. Funded under the Community Service Block Grants, CDCs have leveraged discretionary grant money to build community infrastructures and provide benefits to communities in two ways:

First, CDCs assist local merchants directly by providing the bricks and mortar resources to build small and medium-sized businesses. Such resources are generally not available in these communities to the unproven or the high-risk businessmen and women through traditional lending institutions or conventional banking systems.

Secondly, CDCs help communities revitalize by creating or retaining jobs in the community, housing in the community, and

community service, because the revenue of the business and the jobs they create stay in those communities, unlike enterprise zones, where the businesses come in and take out of the communities.

There are those who suggest that enterprise zones are a viable alternative to this approach. I could go into an hour dissertation as to why they are not, but I won't do that. As has been shown by the English model and several experiences in the U.S., investors who create or move businesses into enterprise zones for tax and labor advantages historically take the money back out as soon as the tax breaks and the labor law waivers end.

Despite the proven success of the CDCs, they continue to receive a limited Federal contribution. Indeed, both the Reagan and Bush administrations repeatedly recommended the elimination of the entire Service Block Grant program, suggesting that we rely solely on enterprise zones. Well, England was the creator of the idea, and they were smart enough to give up on them, and they adopted our CDCs. My hope is that we will do the same.

President Clinton has rightly recognized the plight of the low-income neighborhoods by focusing on what will help these communities help themselves instead of allowing outside business interests to help themselves to the communities. The President repeatedly called for a vigorous Federal commitment to community development programs like community development banks and others throughout his campaign. He had a great experience with the one in Arkansas. That one was a mirror image of the one in East Los Angeles that was created by TELACU.

He echoed this vision that he has for America in his inaugural address. I know that President Clinton—at least I believe he does—understands the concepts we are discussing and what the results of these programs can be. I am advised that today several of the witnesses have hosted the President at their programs and made him completely aware.

The many successful programs around the country should be a part of an overall strategy to rebuild America's low-income communities. Community development banks are but one piece, and I believe that CDCs are another vital component. I am eager to work with the President to fashion a comprehensive strategy, as I'm sure all of the members of this committee are.

Last February, I reintroduced legislation that I believe can be a part of that plan. H.R. 818, the Community Service Empowerment Amendments of 1993, would do just that, empower communities. It would enhance the community development corporations' programs by creating revolving grant and loan funds for investment in employment and entrepreneurial opportunities in low-income neighborhoods. To acquire such funds, CDCs would be required to match partnership funds with non-Federal dollar funds on a dollar-for-dollar basis. The money invested in a CDC revolving loan and grant fund would have to be, absolutely have to be, reinvested in the community where it came from. Any proceeds earned through the investments in community entrepreneurial projects would be repeatedly reinvested in a local revolving fund, in more local jobs, more local housing, more local services, and more local businesses.

In effect, the success of a CDC-supported enterprise would lay the foundation for more enterprises. The creation of jobs through

one investment would create more jobs through the next investment. Such regenerating investments would help replace despair with hope. We can restore hope if low-income communities are rebuilt with the jobs, businesses, commerce, and opportunities that they deserve.

Once communities are truly rebuilt, residents won't stand for the type of destruction we witnessed in Los Angeles last May. The evidence of that exists in Florida where such an event almost took place except for the knowledge that the community they were going to destroy was one that they had built. They won't move from our rural areas for a better life, because they will have it there. They will have too much to lose.

We can't afford to lose one single low-income community as we have done in the past. Our economy and our collective future depend on it. The CDC revolving loan funds, as a part of a comprehensive strategy, can solve the problems of low-income communities by investing in the potential of local human resources and rebuilding the local economic infrastructure.

I look forward to the testimony of the witnesses here today, because it's clear to me that they understand exactly what is happening in our low-income neighborhoods today. They are proof of the value of this idea; they have been doing it for some time.

At this time, I would like to turn to my colleagues for any statements they would like to make. I would like to, before we do that—I will take Susan first and then you, Mr. Kildee—Julian, would you mind joining us up here on the podium.

Mr. DIXON. I would be glad to.

Chairman MARTINEZ. Ms. Molinari.

Ms. MOLINARI. Thank you, Mr. Chairman.

I want to thank you for holding this hearing to examine the operation of CDCs. As you have described, CDCs are an excellent example of the public-private partnership. The Federal Government, by providing seed money to local nonprofit organizations, does serve as a catalyst to provide opportunities to low-income and disadvantaged communities.

The Federal Government does have a responsibility to promote expansion of opportunity, but we acknowledge that local citizens have to be involved in any attempts at poverty reduction. Certainly, the best way to do this is to allow the local citizens to use their entrepreneurial talents and knowledge to start businesses which best suit the needs of the community and to have the start-up capital for these enterprises come from the community as well.

I do support the concept of CDCs, because the Federal Government provides a portion of the CDC funding that in turn is used to leverage other non-Federal dollars, and I think that is incredibly important in today's fiscal day and age. This money is invested in revolving funds to help promote profitmaking enterprises that pay the money back, which perpetuates the fund. In the process, the community is helped. From what I understand and know, many CDCs have been very successful at implementing this concept and leveraging these Federal dollars.

I know this hearing is also meant to discuss your bill, Mr. Chairman, H.R. 818, the Community Service Empowerment Amendments of 1993. From my brief reading of your bill, it would take the suc-

cessful concept and establish a new Federal program to pursue many of the same goals. While I agree that the concept is a worthy one, I must respectfully state for the record that I am concerned with the notion of creating duplicative Federal bureaucracies to administer essentially identical projects.

I look forward to hearing what our witnesses have to say about it and add, with the one caveat, that if this new Federal agency is used to help do some more aggressive oversight and reporting to Congress, then, in fact, it may be very worthwhile.

I thank you again for calling this hearing and yield back the balance of my time.

Chairman MARTINEZ. Thank you, Ms. Molinari. We do not intend to create a new bureaucracy. What we simply intend to do is change the jurisdiction from where it is now to a place where it can be better administered.

Ms. MOLINARI. I see.

Chairman MARTINEZ. Mr. Kildee.

Mr. KILDEE. Thank you, Mr. Chairman. I will not be able to stay long. I have my own subcommittee meeting at 10 o'clock, but I wanted to come here for the beginning.

I have great respect for the CDCs because of their community control and their creativity. I've been in Washington for 17 years now, and the longer I'm here the more I realize that this is not the center of wisdom, that wisdom lies out there, and we tap that when we work with the CDCs.

I also want to especially welcome Monsignor Linder. Much of my social, moral, and political fine-tuning took place in a few visits to Newark and to New Jersey, at the Benedictine monastery up there. I have been enriched by that and welcome you here this morning.

Chairman MARTINEZ. Thank you, Mr. Kildee.

Mr. Barrett.

Mr. BARRETT. Thank you, Mr. Chairman.

It's a pleasure to welcome such a distinguished panel of witnesses this morning. I think this should be a very good hearing.

While a lot of people in Congress seem to be clamoring for more investments in our inner cities and our rural communities, I think it has been the community development corporations that have continued to hammer away at the economic plight and some of the social disparities that are existing in these areas.

I think, Mr. Chairman, that community development corporations might really be a political paradox in that they do appeal to both conservatives and liberals. In that sense, I don't know that there are too many other issues like this that cross party lines as this particular issue does. So I am pleased to be here, and I look forward to the testimony as well.

Thank you.

Chairman MARTINEZ. Thank you, Mr. Barrett.

Mr. Scott.

Mr. SCOTT. Thank you, Mr. Chairman.

I am pleased that you have called this hearing on the Community Service Empowerment Amendments of 1993. With the present status of the economic stimulus package, it's even more critical for Members of Congress to look for alternative approaches to boost the economy of our communities. The Community Service

Empowerment Amendments of 1993 offer an avenue for the small entrepreneur to start a business or for the community activist to meet a critical community need that would otherwise go unmet.

In my own district, Hampton University is working with nearby residents to establish a community development corporation to address some of the housing rehabilitation and economic development concerns of the Phoebus section of Hampton, Virginia, an area that is in dire need of revitalization. So I have firsthand knowledge of the value of this type of support to a community.

Mr. Chairman, I know that today you have convened an array of examples from across the country that demonstrate how this concept can and has worked. I am anxious to hear the various people testifying. Mr. Chairman, you have my full support in moving H.R. 818 forward.

Chairman MARTINEZ. Thank you, Mr. Scott.

Ms. Woolsey.

Ms. WOOLSEY. Thank you, Mr. Chairman.

I come here from the City of Petaluma in the 6th Congressional District in California. I can tell you firsthand how successful the CDC program has been. In the City of Petaluma, where I served on the city council, we had growth control. Along with growth control, we had 15 percent of our housing for low and very low-income families. That's very unusual with growth control but it is because of CDC programs. We were able to parlay and to leverage almost every dollar that we get from a developer to $10 or $11 because of community partnerships, CDCs.

So I, too, am here supporting H.R. 818.

Chairman MARTINEZ. Thank you very much, Ms. Woolsey.

At this time, I would like to introduce a distinguished colleague of ours, someone who is a reputable person in Congress, who has worked long and hard with programs like this. He is here to introduce one of the witnesses who is on a later panel, but I am going to allow him to do it at this time, in order that, if he has some other business that he wants to tend to, he can do that. If he wants to stay for all or any part of the hearing, he is certainly welcome to do that and even participate if he would like.

Mr. Dixon.

Mr. DIXON. Thank you, Mr. Chairman.

I, too, thank you for bringing together a discussion on H.R. 818. I have a prepared statement for the record, and, with your permission, I would like to insert it. I would like to talk about, just for a minute, a member of the 32nd District, who is a constituent of mine and also I think has vast experience on community development corporations and working in the community. Her name is Valerie Lynne Shaw, and she has, as I indicated, a breadth of experience.

She has worked as a program manager for the U.S. Conference of Mayors. She has been a public information officer for a major freeway development in Los Angeles, the Century Freeway. She has been a program specialist for the Charles Drew Development Corporation and presently serves as a field deputy to Councilwoman Ruth Galanter.

But, most importantly, after the riots of last year on April 29, she, along with several of her colleagues in the Crenshaw area, de-

veloped the Crenshaw Neighborhood Development Corporation. Crenshaw is a very important main artery, both commercially and culturally, to my community, and she has started a CDC. I think that her experience in that development and her background make her an excellent witness, and I thank you very much for inviting her here today.

Chairman MARTINEZ. Thank you, Mr. Dixon.

Would Ms. Shaw stand up so we can all recognize her after that nice introduction.

Ms. Shaw, welcome.

Ms. SHAW. Thank you.

Chairman MARTINEZ. Mr. Dixon, your statement will be introduced into the record in its entirety, if there are no objections. Hearing none, so ordered.

Mr. DIXON. Thank you, Mr. Chairman.

[The prepared statement of Hon. Julian Dixon follows:]

STATEMENT OF HON. JULIAN C. DIXON, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF CALIFORNIA

It is my pleasure today to introduce to the committee, Ms. Valerie Shaw of the Crenshaw Neighborhood Development Corporation, a community development corporation in my congressional district.

Community economic development is a proven approach for economic change and empowerment. It seeks to tackle the stubborn problem of poverty—of individuals and the communities in which they live. Community economic development is achieving success where other approaches have failed. Recognizing that poverty results from an intertwined set of problems, CDCs use a wide variety of management tools to address those problems.

The process of community economic development is catalyzed and carried out by organizations like the Crenshaw Neighborhood Development Corporation, which is a private nonprofit organization distinguished by its targeting of clearly defined geographic area and providing the impetus to rebuilding urban low-income communities by creating new jobs through the development of small and medium size businesses.

I have known Valerie Lynne Shaw over the years. She is with us today representing the Crenshaw Neighborhood Development Corporation—a new and emerging CDC. Since 1987, she has served as the district deputy for Los Angeles City Councilwoman Ruth Galanter, managing a division which provides political assistance to the Crenshaw area of Los Angeles, that has a population of approximately 70,000. Her duties as district deputy include policy development, community organizing/outreach, public speaking, constituent services, personnel management, and project development.

Valerie Shaw has shown her fervor and propensity towards community development and enrichment since 1972 when she first acted as the administrator for Teen Post Youth Information Center in Los Angeles. She managed a Los Angeles City sponsored juvenile diversion project which serviced over 100 young people, as well as their families.

In 1980, Ms. Shaw served in a number of management positions. She was the program manager for the United States Conference of Mayors in Washington, DC, managing a national effort to promote the role of urban arts as an economic development tool to enhance the economy of cities until 1982.

From 1982 to 1985, Valerie served as public information officer for the Century Freeway Committee in Lynwood, California. Here, she oversaw a public information system which informed the media, the business sector, community groups, local officials, and government agencies throughout Los Angeles County about business opportunities with the Century Freeway project.

From 1985–1987, Ms. Shaw served as business development specialist at Charles R. Drew Medical School's Drew Economic Development Corporation. She later conducted project development activities for a local community economic development firm which specialized in real estate and business development.

Mr. Chairman, members of the committee, I know you will join me in welcoming this distinguished witness before this subcommittee. Valerie Shaw has over 15 years

of experience in the community development field, specializing in the areas of advocacy, economic development, and human services. The effort to rejuvenate our communities is measured by successes in building the productive capacity of individuals and communities so they can move into the economic and social mainstream. The goal of these community development corporations is to provide not only job opportunities, but also lasting stability by ensuring that impoverished areas develop the anchors that middle class neighborhoods take for granted—from strong community organizations to well-stocked stores and corner banks, to thriving local businesses, safe parks and decent housing. Crenshaw Neighborhood Development Corporation, with Valerie Shaw at its helm, is striving for this far-reaching goal.

Chairman MARTINEZ. Mr. Baesler.

Mr. BAESLER. Thank you, Mr. Chairman.

I appreciate you giving Mr. Frank Taylor from Berea, in my district, an opportunity to talk about the MACED today, which I think has been a very successful program. At this time, I would like to introduce Frank, who is on your first panel.

Chairman MARTINEZ. Frank, since he has introduced you, why don't you come up and take a seat. Frank is, of course, as Mr. Baesler has said, from Kentucky.

Berea, is that the way you pronounce it?

Mr. TAYLOR. Right. Yes, Berea.

Chairman MARTINEZ. It's almost an Hispanic-sounding name.

He is from the Mountain Association for Community Economic Development.

Welcome.

Joining him on the panel today is Mr. Lee Beaulac from Rural Opportunities Inc., Rochester, New York; Monsignor William Linder from the New Community Corporation of Newark, New Jersey; and, Mr. Don Maxwell from the Kansas City Community Development Corporation, Kansas City, Missouri.

Nice to see you again, Mr. Maxwell.

Mr. MAXWELL. Thank you, Mr. Chairman.

Chairman MARTINEZ. Mr. Roderick Mitchell of Bedford Stuyvesant Restoration Corporation, Brooklyn, New York.

Welcome. We will start the testimony with Mr. Beaulac.

STATEMENTS OF LEE BEAULAC, RURAL OPPORTUNITIES INC., ROCHESTER, NEW YORK; MONSIGNOR WILLIAM LINDER, NEW COMMUNITY CORPORATION, NEWARK, NEW JERSEY; FRANK TAYLOR, MOUNTAIN ASSOCIATION FOR COMMUNITY ECONOMIC DEVELOPMENT, BEREA, KENTUCKY; DON MAXWELL, KANSAS CITY COMMUNITY DEVELOPMENT CORPORATION, KANSAS CITY, MISSOURI; AND RODERICK MITCHELL, BEDFORD STUYVESANT RESTORATION CORPORATION, BROOKLYN, NEW YORK

Mr. BEAULAC. Good morning. My name is Lee Beaulac. I am the director of housing and economic development for Rural Opportunities Inc., which is based in Rochester, New York. I am delighted to have the opportunity to testify before this committee on the significance of community-based development corporations in the fight to reclaim America's neighborhoods from out of the grip of poverty and despair.

Mr. Chairman, I am also very grateful to you for your leadership in introducing and sponsoring H.R. 818.

Mr. Chairman, before I offer my testimony this morning, I would like to take a moment to acknowledge the passing of a great American, Cesar Chavez.

As an organization founded and led by farmworkers and farmworker advocates, Rural Opportunities mourns the loss of this peaceful man of action who focused the world's attention on the plight of migrant and seasonal farmworkers and who, by dedicating his life to the cause of collective bargaining for farm laborers, leaves an enduring legacy in the improvement of the lives of thousands of American working families. Mr. Chavez will be sorely missed, but his work will be carried on by others.

Rural Opportunities is a not-for-profit rural services and development corporation based in Rochester, New York, which works to improve the economic conditions in rural communities of the Northeast and Midwest regions of the country. ROI, Rural Opportunities Inc., is governed by farmworkers, low-income individuals, and representatives from both the public and private sectors who share our vision for a better life for rural people in the United States.

In our work, we attempt to harness the energy, the inherent desire for self-fulfillment, and the knowledge of local conditions which exists within the communities where we work. These three elements are what make our work relevant to these communities and directly contribute to the success of our efforts and the efforts of other community development corporations across the country.

In fact, I believe that it is these three elements which define the community-based development movement and sets community development corporations apart from other organizations which work in communities, both public and private.

In our particular situation, we have developed or improved nearly 800 units of housing, all in rural areas, 95 percent of which are targeted to people whose incomes do not exceed 50 percent of the area's median income. And you will find that this direct targeting to low-income populations is not only what characterizes our group and our work but, indeed, the CDCs across the country.

Rural Opportunities also operates a million-dollar revolving loan fund. We are an SBA intermediary in the migrant loan program, which SBA created last year—I should say Congress created last year—and we also work with revolving loan funds financed by the Farmers Home Administration. Notwithstanding both of those programs, I'm here to tell you that there is nowhere, no way enough money in our revolving loan funds to meet anywhere close to the demand which exists out there for venture capital.

Mr. Chairman, the communities in which we work are in very serious trouble. People in these communities are crying out for help, but it seems that no one is really listening. I don't think their voices are being heard, because too often we just simply don't want to hear it.

How long must we have a public policy in this country which basically says, "We'll wait for trickle down to help. We'll wait for trickle up to help. A rising tide lifts all boats." Is this the best we can do? Is this in fact the best we can listen and respond to the critical problems in low-income communities? I would suggest no.

These communities are in very serious trouble. In 1991, the number of poor Americans rose by 2.1 million, up to 35.7 million people in this country, the highest number since 1964. In fact, in 1964, the year in which President Johnson launched the War on Poverty, the percentage of poor people rose to 14.2 percent.

These conditions are not limited to our urban areas. The rural poor are more likely than the urban poor to experience long-term poverty. The poor in both urban and rural America have been abandoned. Their voices are not being heard. It's time to begin listening, it's time to begin acting, and it's time to begin doing.

What can be done and what role should CDCs play? The genius of community development corporations is that they combine community control and understanding of their communities with a structure which can accommodate a myriad of activities which create jobs, business enterprises, physical infrastructure, housing, social services, all of which are required to build strong communities.

CDCs have demonstrated that they can produce in these areas. In a recent survey conducted by the National Congress for Community Economic Development, it was found that community development corporations have become the major producers of housing for low-income people. The survey found that CDCs have developed over 320,000 units of housing for over 1 million people. This is aggregate data, nationally, over a 5-year period.

Why were these CDCs able to do this when nobody else was able to do it? They were able to do this because they combined the following characteristics: First, again, their efforts are highly targeted. We don't waste our time doing anything but developing housing and enterprises for low-income people. They were familiar with local conditions and were able to mobilize community support for their efforts. Third, they possess the expertise in development finance techniques. And, fourth, they have entrepreneurial attitudes, and they demonstrate tenacity, cleverness, and a willingness to take risks.

In other words, CDCs combine the best of the public and private sectors and create a unique and efficient third sector approach. Many States, as well as the Federal Government, are beginning to recognize the importance of community development corporations in community revitalization efforts and have, in fact, turned to us for help. Witness the advent of the nonprofit set-aside concept in such programs as the new Federal Home Program and the Low-Income Housing Tax Credit Program.

The Federal Government, however, still struggles to understand our potential as a full-fledged partner in the war against poverty. It absolutely baffles me that, after 25 years of experience and demonstration that we can make an impact, a positive impact in low-income communities, we're still being treated like the stepchild. It's time that this Nation developed an economic development policy which recognizes the importance of community development corporations in our efforts, and it should back this recognition with meaningful financial support.

CDCs are one of the few institutions that can financially and technically support low-income and small business entrepreneurs in distressed communities. There is a pressing need to create and

assist indigenous entrepreneurship, not enterprise zones—not enterprise zones—but indigenous business creation. There is a big difference between those two concepts. There is a need to create assets in low-income communities, to unleash the potential which is to be found in these communities.

Access to capital is of critical importance to this process. The lack of private investment has been one of the major factors in speeding the decline of low-income communities. Most lending institutions have divested in low-income communities and have taken deposits and utilized those funds elsewhere. The restructuring of the financial services industry has also had the effect of downsizing the number of banks that make commercial loans in low-income communities.

Government regulations have increased the perception of risk in small business lending, especially in low-income areas. This, coupled with the increased concentration in the banking industry, has had the effect of raising the minimum threshold of a commercial loan. We offer an alternative to this problem, not by ourselves, but this bill that we are considering today speaks to the partnership between community development corporations, the private sector, with the support of the Federal Government.

CDCs can help. Indeed, CDCs are indispensable to this process. In the NCCED study referenced above, 200 CDCs alone reported 17.4 million square feet of commercial and industrial space and the creation or retention of 45,000 jobs, all between the years 1986 and 1990. All of this was accomplished without the benefit of a national policy of CDCs and without any serious amounts of organizational support. Imagine, imagine for a second, what we could accomplish with some meaningful support.

Mr. Chairman, the passage of H.R. 818 would directly contribute to economic activity in low-income communities. It would do so by making available much-needed credit and technical assistance, highly targeted to those people who are now being left out of the circle of opportunity in this country.

It would do so by combining the spirit and energy of local entrepreneurship with the technical expertise found in community development corporations. It would do so by combining public and private capital. It would do so by investing in people and investing in their communities.

In conclusion, Mr. Chairman, I would like to thank you and the subcommittee for holding these important hearings on the role of CDCs in the revitalization of rural and urban communities. We and the thousands of other CDCs across the country stand ready to assist the subcommittee in its important work to generate resources which would support the work which we do.

Thank you very much.

[The prepared statement of Lee Beaulac follows:]

Statement of Lee Beaulac, Director of Housing and Economic Development, Rural Opportunities, Inc.

Good morning. My name is Lee Beaulac. I am the Director of Housing and Economic Development for Rural Opportunities Inc. [ROI], based in Rochester, New York. I am delighted to have the opportunity to testify before the House Committee on Education and Labor Subcommitte on Human Resources on the significance of community-based development corporations [CDCs] in the fight to reclaim America's

communities from out of the grip of poverty and despair. Mr. Chairman, I am also very grateful to you for your leadership in introducing and sponsoring H.R. 818, the Community Services Empowerment Act of 1993.

Rural Opportunities, Inc. [ROI] is a not-for-profit rural services and development corporation, based in Rochester, New York, which works to improve the economic conditions in rural communities of the northeast and midwest regions of this country. ROI is governed by farmworkers, low-income individuals, and representatives from both the public and private sectors who share our vision for a better life for rural people in the United States. In our work, we attempt to harness the energy, the inherent desire for self-fulfillment, and the knowledge of local conditions which exist within the communities in which we work. These three elements are what makes our work relevant to these communities and directly contribute to the success of our efforts. In fact, I believe, it is these three elements which define the community-based development movement and sets community development corporations apart from other organizations, public and private.

Mr. Chairman, the communities in which we work are in serious trouble. People in these communities are crying out for help but it seems that no one hears. I don't think their voices are being heard because too often we don't want to hear them. "Trickle up," "Trickle down," "A Rising Tide Lifts All Boats." Is this the best we can do? Is this the best we can listen?

These communities are in trouble. In 1991, the number of poor Americans rose 2.1 million, up to 35.7 million the highest number since 1964, the year that President Johnson declared war on poverty. The percentage of poor people rose to 14.2 percent, the highest since 1984. These conditions are not limited to our urban centers. The rural poor are more likely than the urban poor to experience long-term poverty. Nevertheless, the poor in both urban and rural America have been abandoned. Their voices are not being heard. It is time to begin acting. It is time to begin doing.

What can be done and what role should CDCs play? The genius of CDCs is that they combine community control and understanding of their communities with a structure which can accommodate a myriad of activities which create jobs, business enterprises, physical infrastructure, housing, and social services, all of which are required to build a strong, vibrant community. CDCs have demonstrated that they can produce in these areas. In a recent survey conducted by the National Congress for Community Economic Development [NCCED], it was found that CDCs have become the major producers of housing for low-income people. The survey, *Improving The Odds*, found that CDCs had developed over 320,000 units of housing for over 1 million people. Why were CDCs able to do this? They were able to do this because they combined the following characteristics:

their efforts were highly targeted to low-income people

they were familiar with local conditions and were able to mobilize community support for their efforts

they possess the expertise in development finance techniques

they are "entrepreneurial" in attitude, and demonstrate tenacity, cleverness, and a willingness to take risk.

In other words, CDCs combine the best of the public and private sectors and create a unique and efficient "Third sector" approach. Many States, as well as the Federal Government, are beginning to recognize the importance of CDCs in community revitalization efforts and have turned to us for help. Witness the advent of the "nonprofit set-aside" in such programs as the new Federal HOME program and the Low-Income Housing Tax Credit program. The Federal Government however, still struggles to understand our potential as a full-fledged partner in the war on poverty. It baffles me that, after 25 years of experience, in which CDCs have demonstrated their capacity and contributions to low-income communities, we are still treated like a step-child. This government still has no policy on CDCs and no serious commitment to help us in our work.

CDCs are one of the few institutions that can financially and technically support low-income and small business entrepreneurs in distressed communities. There is a pressing need to create and assist indigenous entrepreneurship, to create assets in low-income communities, to unleash the potential which is to be found in these communities. Access to capital is critical to this process.

The lack of private investment has been one of the major factors in speeding the decline of low-income communities. Most lending institutions have divested in low-income communities and have taken deposits and utilized those funds elsewhere. The restructuring of the financial services industry has also had the effect of downsizing the number of banks that make commercial loans in low-income communities. Government regulations have increased the perception of risk in small business

lending, especially in low-income areas. This, coupled with the increased concentration in the banking industry has had the effect of raising the minimum threshold of a commercial loan.

CDCs can help. Indeed, CDCs are indispensable to this process. In the NCCED study, referenced above, 200 CDCs alone reported developing 17.4 million square feet of commercial and industrial space and the creation and/or retention of 45,000 jobs, all between 1986 and 1990. All this was accomplished without the benefit of a national policy on CDCs and without any serious amounts of organizational support. Imagine what we could accomplish with some help!

Mr. Chairman, the passage of H.R. 818 would directly contribute to economic activity in low-income communities. It would do so by making available much-needed credit and technical assistance highly targeted to those people who are now being left out of the circle of opportunity in this country. It would do so by combining the spirit and energy of local entrepreneurship with the technical expertise found in CDCs. It would do so by combining public and private capital. It would do so by investing in people and in their communities.

In conclusion, Mr. Chairman, I would like to thank you and the subcommittee for holding these important hearings on the role of CDCs in the revitalization of rural and urban communities. We and the thousands of other CDCs across the country stand ready to assist the subcommittee in its important work to generate resources which would support the work which we do.

Thank you.

Chairman MARTINEZ. Thank you, Mr. Beaulac.

While we are going to the other witnesses, something you might think about, because I will ask this question. Major corporations want to participate in a community. The CDC now allows for a CDC to invest as a co-venture with an individual who has a concern that maybe needs some capital investment and technical expertise and help, with the potential there for that person they invest with to buy out the CDC eventually.

If major corporations wanted to invest in communities rather than through enterprise zones, I would say there would be a great potential for them doing so with the same idea in mind, that they would be community investors in that business, so it would belong to a part of the community, and that eventually those community investors would be able to buy out that major corporation. Think about that idea.

Mr. BEAULAC. Okay.

Chairman MARTINEZ. I am going to turn, to introduce our next witness, to our distinguished colleague, Mr. Wheat from Kansas.

Mr. WHEAT. Thank you, Mr. Chairman. I appreciate the opportunity to sit with you on your panel, and I especially appreciate the opportunity to participate with you in co-sponsoring H.R. 818, the Community Services Empowerment Act of 1993.

As I think you heard from the last witness, CDCs can be a very powerful tool in helping to redevelop inner city areas. In particular, I am proud to introduce Don Maxwell, who has been the driving force behind CDC Kansas City and a pioneer in demonstrating just what CDCs can and should accomplish.

The CDC in Kansas City is a multifaceted economic development organization that brings true vision to industrial development, to commercial development, and brings new housing to the area which is truly in need. By leveraging Federal funds, foundation support, and government grants, Don Maxwell in CDC Kansas City has succeeded in creating over 1,200 new, and I might mention, permanent jobs in Kansas City. Collectively, 1,000 of the people currently holding these jobs are earning over $15.8 million annual-

ly, and the ventures themselves are paying over $4.5 million in property, personal, and sales taxes.

CDC Kansas City nurtures a wide variety of productive ventures, including manufacturing, residential housing, and shopping centers. And I might mention, having lived previously in this neighborhood, that an area that was once used by a filmmaker to demonstrate the effects of a nuclear holocaust has now been reclaimed by Mr. Maxwell and CDC Kansas City into a shopping center that has turned the entire neighborhood into a thriving and productive environment.

So, Mr. Chairman, I am very happy to sit with you today and pleased to work with you and Mr. Maxwell on this legislation. I am very proud to introduce my friend Don Maxwell.

Chairman MARTINEZ. Mr. Maxwell.

I had the occasion of meeting Mr. Maxwell earlier, a couple of years ago, I believe it was.

Mr. MAXWELL. Right.

Chairman MARTINEZ. He made an outstanding presentation to the then Secretary of Health and Human Services who seemed baffled by it, and we didn't get the kind of consideration that we deserved or should have had. Hopefully, with the new administration and a new Secretary, we may be able to move further ahead than we were able to the last time.

Mr. MAXWELL. I hope we can.

Chairman MARTINEZ. Mr. Maxwell.

Mr. MAXWELL. I am glad to have the opportunity to come and testify today about the role that I think the CDCs can play in rebuilding America, especially in our urban communities, which I am so familiar with. We need assistance in our urban communities. We also need assistance in our rural communities. I am, of course, testifying as one who has been on the front line in an urban community that was definitely very blighted.

In the latter part of the 1960s, a new phenomenon swept the country, especially in black and Hispanic communities. This phenomenon also included low-income white communities. To create institutional development for the eradication of poverty, nonprofit organizations sprang up in major urban cities that had a concentration of blight. These organizations were named community development corporations.

Each of these CDCs spent a good deal of time outlining an overall economic development strategy that provided a clear course for revitalization through self-determination in a particular neighborhood. Generally, those individuals who put that plan together were from that neighborhood. These economic development strategies included industrial development, commercial development, retail establishments, and some housing production.

Originally, there were 36 Title VII CDCs funded through the Office of Economic Opportunity. These seedlings grew, the concept spread, and new organizations sprang up. Today there are over 5,000 CDCs across the country. There are about 3,000 CDCs that have what we call capacity, that we have designated as emerging CDCs. The concept is to take existing resources and financial opportunities inside a target community, create jobs, remove blight,

encourage entrepreneurship and business development, and create a positive cash flow within a targeted community.

To help you better understand what I'm talking about, in our particular community there are few opportunities for minorities in a community that is resided in by all minorities. We have 82,000 people living within a 5-mile radius of the shopping center that houses my office. Those 82,000 people spend $1.5 billion a year on consumable goods. Those consumable goods are sold by other folk than the folk in the neighborhood.

What I mean by that is that we spend $300 million a year on groceries in that neighborhood, yet there is only one black-owned grocery store that does $1 million a year. That means that these resources are going outside of our economy. We spend $244 million a year in that community on clothing, yet there is not one black-owned clothing store in the neighborhood. We spend $89 million a year on hardware goods. There are only two small hardware stores, neither of them do over $200,000 a year in annual sales. We spend $140 million a year on appliances and furniture. There is not a black-owned furniture or appliance store in our neighborhood.

So what has happened is that we receive dollars, but those dollars never turn in our own community. We spend them; they go outside the community; they never come back. And then folk wonder why we cannot revitalize our neighborhood.

In an effort to deal with that, the Community Development Corporation of Kansas City, for a number of years, has worked on creation of a number of projects. Let me just share with you some of the projects we have been able to do. We manufacture cement blocks in our community. In 1978, we were in competition with outside groups to manufacture blocks for our community. Today we manufacture 65 percent of all the cement blocks manufactured in the Kansas City area.

We employ some 55 people there. We only have two people in that plant who know how to read and write. We have been able to take those individuals that have been devastated by poverty and put them to work, and today those individuals working in that block plant earn between $35,000 and $37,000 a year. We think that's important. That goes towards taking care of their families.

We have been able to build a plastics manufacturing plant that has employed over 400 people from our community. These individuals earn $7.50 an hour, and they are in a training position. Once they have been with us for a year, they are able to go out into private industry and work. Most of these folks start making between $15.00 and $16.00 an hour at other plastics manufacturing plants.

We have been able to take apartment buildings, we have been able to take run-down shopping centers and rebuild them. But most of all, as my Congressman, Alan Wheat, pointed out, we have been able to do a new shopping center. What we have been able to do is build a shopping center, like Linwood Shopping Center, where we employ some 375 residents from the immediate community, and we have been able to, after creating that productive element, we have been able to surround the shopping center with housing. We have built over 400 new housing units in the last 3 years.

We think that the CDC ends up being the conduit necessary to make things happen in the neighborhood. Not only do we capture

the financial reins in our community, but we also capture the spirit of the people and we provide the involvement necessary so that there is an opportunity for ownership. Without the opportunity for ownership and participation, the neighborhood never feels like it belongs. In order for us to revitalize communities, that participation is very important.

With that, I will cut my testimony, unless there are questions that come after the panel discussion.

[The prepared statement of Don Maxwell follows:]

Statement of Donald L. Maxwell, Kansas City Community Development Corporation, Kansas City, Missouri

In the latter part of the 1960s, a new phenomenon swept the country, especially in Black and Hispanic communities. This phenomenon also included low-income white communities. To create institutional development for the eradication of poverty, nonprofit organizations sprang up in major urban cities that had a concentration of blight. These organizations were named "Community Development Corporations" [CDCs].

Each of these CDCs spent a good deal of time outlining an overall economic development strategy that provided a clear course for revitalization [through self-determination] of neighborhoods and whole communities. These economic development strategies included industrial development, commercial development, retail establishments, and some housing production.

Originally, there were 36 Title VII CDCs funded through the Office of Economic Opportunity. These seedlings grew, the concept spread, and we now have in excess of 5,000 CDCs throughout the country. Approximately 3,000 of these organizations have become what we call "emerging" CDCs.

The concept is to take existing resources and financial opportunities inside a target community to: (1) create jobs, (2) remove blight, (3) encourage entrepreneurship and business development, and (4) create a positive cash flow within the targeted community.

There is a major concentration of effort to offer removed opportunities to communities that are dying because industry and commercial development has moved from the central cities. Much of the work one has done in these urban incubators is now being exported to third world nations or rural cities where labor can be purchased at a reduced rate. The challenge before CDCs is to identify new ways of making one's community productive.

CDCs are also responsible for rejuvenating the spirit of the people in that community. When a CDC does business development it understands its social responsibility. In order to produce self-reliant commercial opportunities, CDCs must be concerned about the bottom line in its analysis of the endeavors designed for that particular community. The CDC must have the presence of mind and the concern of the people to make sure those opportunities operate in harmony with existing institutions.

In Kansas City, Missouri, the strategy of the Community Development Corporation of Kansas City [CDC–KC] has been to develop shopping centers, using the centers as an anchor or nucleus. CDC–KC then builds housing and uses the housing as a buffer to bring new families back to distressed areas, thus creating an economic base. This strategy has passed the test for community rejuvenation. This strategy has created jobs that are excellent for community residents who are just entering the job market and in need of entry level positions. This strategy offers some upward mobility to more experienced workers. In each instance, CDC–KC has removed severe blight, created a positive cash flow in the targeted community, and offered minority entrepreneurs the opportunity to go into business in their own community.

CDC–KC has created job training programs and worked in harmony with our local JTPA Programs. CDC–KC has provided minority entrepreneurs the opportunities to create an equity base with sweat and a combination of dollars. We often bring diverse personalities together and get all elements of the community involved. We offer ownership opportunities. Most of CDC–KC's developments have been delivered by local Black churches and their congregations.

The most important ingredient of this new-found philosophy is that CDC–KC has been able to bring private financial institutions and elected officials back to the table to assist us in providing essential goods and services to our underprivileged, under-served populations. CDC–KC has been able to start apprentice programs,

work release programs, and job opportunities for low-income people [JOLI]. CDC–KC has been able to get local school districts and colleges involved. We use our community as a laboratory for these institutions to do experimental economic development activities.

The leverage of resources that I have spoken about is compounded and goes on and on. Today, my testimony is a request that the House of Representatives and Congress expand funding for CDCs by creating [inside the administration] budget set-asides for organizations with the flexibility to do so much for so many at an accelerated rate.

We are asking that equity capital be made available without public assistance so that these downtrodden communities can pull themselves up by the bootstraps. Without experienced organizations with multi-faceted capacities and technical capabilities to structure the proposals and conduct analyses and serve as advocates for the CDC target communities, the cycle will only continue as it relates to blight and all the ramifications of it.

Help us help our communities to climb out of the pot of poverty and into the mainstream of economic opportunity.

Chairman MARTINEZ. After we hear all of the testimony from all of the witnesses, we will be asking several questions.

Thank you very much, Mr. Maxwell.

Monsignor William Linder.

Monsignor LINDER. Thank you, Mr. Chairman.

I would like to just quickly summarize the testimony I introduced in written form and then kind of make a couple of points.

New Community started right after the summer disorders of 1967, which was, I think, a familiar sound. You hear about community development groups, how they started. It was at that time, in 1967, Time Magazine described Newark as the worst city in the Nation. We, right in the middle of the Central Ward, in the center of our summer disorders, decided we needed to do something which was a countersign to what was happening.

Today, we have 2,500 new units of housing for low-income people. We have health programs. We have 10 of them, actually, which are community-based programs. We do our own management, maintenance, security. We have a security force, for example, of 120. In economic development, we have eight for-profit businesses and numerous nonprofit ventures to create jobs, and that is what helped us to create the 1,200 jobs we did in our history.

Included in there is the first major supermarket, food market, in Newark in 30 years. Everyone was afraid to move in. We now have 50,000 customers a week in that store. In education, we believe in early childhood. We have now six day-care centers. We have 630 children in day care. They are called Babyland. Babyland number seven is under construction. Babyland eight is being planned right now to be in the ground by July. We have one that is for HIV-positive. We have another one for child abuse. Last night we were honored for Harmony House by the National Alliance to End Homelessness, and we have a day-care center attached to that facility.

Chairman MARTINEZ. Monsignor, I have to interrupt you for just a minute, because a thought struck me. You know, we have been dealing with all of these problems you just mentioned, and how to correct them, and trying to find ways to fund them. And with the little seed money we have given you, you have been able to leverage that money and fund all of these programs and correct all these problems, day care, AIDS, et cetera, that you have mentioned.

Monsignor LINDER. Right.

Chairman MARTINEZ. I just wanted to make that a special note at this point in time so that we can go back and refer to it, because this is the answer to a lot of the problems, because those problems really have to be worked out at the grassroots level, not up here in Washington, DC.

Thank you.

Monsignor LINDER. Following up what Don Maxwell said, you know, we, too, believe we have to keep the money in the community. So, for example, we have a lot of businesses, nursing home, day care, security, maintenance, all need uniforms, so we used that to create a uniform manufacturing business. In fact, my black suit is the first black suit they have done in our factory.

But I think there are opportunities. Then they are going to go into African-American fashions and into children's fashions and tie that with fashion shows, and so on. So you build community pride. Community development groups try to take all of these and kind of bring them together to make good economic development, good sense of pride, build the community, give people a sense of power in the community.

We do our own social services, and that includes, as I mentioned, the homeless, AIDS. We have drug intervention programs. We have teenage mother programs. We actually take care of 120 teenage mothers, that includes day-care and support services.

After 25 years, we are now beginning for the first time a 5-year program. We decided we ought to do a little more planning. That planning is included in my testimony. There are eight areas which really we are going to move in, eight tracks. Just to summarize a couple of them, one is, we have five people out in San Jose, California, now, studying in the Comprehensive Employment Training Program. Within 3 weeks we will have three training modules starting. Eventually, we plan to have about 10.

We plan to work on advanced technical training. We are working with the New Jersey Institute of Technology and our State Science Commission. And we plan to continue building new community businesses. In fact, we have two large ones we hope to start very shortly and are also now beginning, through our Community Development Credit Union, to do small financing to start others in the way of business opportunities.

I say all this for what I think is really, I guess, what you mentioned, Mr. Chairman, we did this with very little Federal help. We were allowed access to capital by the State of New Jersey through long-term, low-interest loans. I think we are current on everything. Everything is paying for itself, and we have been doing okay.

Just imagine what we could do if we really work in a cooperative fashion with the Federal Government and what we could leverage. My estimate is, we can leverage five to 15 times, because we have access to other—we have goodwill. And we have been pressing on issues like community reinvestment. We have some chips out there we can collect on, but we do need some money out there, whether it be seed money, whether it be help with equity money, whether it be the soft, second-level financing, whether it be revolving funds, you know, to help others into businesses, and so on.

But we can produce jobs. In our case, we believe we can train, in the next 5 years, 2,500 people, and we can create 2,000 jobs. Now,

that 5-year program can become a 2½ to 3-year program, if we could get the help.

I also would say that large, mature CDCs have the burden of really trying to—others look to us, the emerging and the little ones starting out. We average three to five major visits a week at New Community. We figure it is now costing us almost $300,000 a year in staff time to supply materials. Everybody wants a very custom kind of tour and involvement. They want to learn how they do a shopping center, how they do a day-care, how they do some business. That is fine, but we need help. And I think we are better teachers than any Federal agency, because I think they relate to us better, and we are on the line. They know what we are saying has been tested and it's true.

The last thing I would like to point out is that I think, as we look overseas, the community development movement is really a U.S. movement, for the most part. And I think we have a lot to contribute in the world we are in.

Other than attaching McDonald's developers and Pepsi-Cola developers to some foreign country, it might be good for our government to begin to think that we also could be a great resource in trying, as countries begin to open up—that this movement could really be very worthwhile in kind of getting a share of knowledge between ourselves and our country and some other countries, in particular maybe Eastern Europe and some of the Third World countries.

Thank you.

[The prepared statement of Monsignor William Linder follows:]

Rev. Msgr. William J. Linder

THE PAST

The recent events in Los Angeles brought back images of the 1967 Newark civil disorders. The events of the Newark civil disorders were the occasion of the founding of New Community Corporation. Preliminary meetings took place before the disorders were over.

New Community Corporation, as a community development corporation, had succeeded in a community which was described by ***Time Magazine*** in 1967 as the worst in the nation. It attests to a "bottom up" comprehensive approach. It was accomplished without the benefit of major federal government support. Just think of what could be accomplished if specific funding was available to community development corporations.

In January 1968 a board of nine incorporated New Community Corporation as a non-profit Community Development Corporation. A Community Development Corporation (CDC) is community based (community representatives), targets low income neighborhoods, and seeks neighborhood economic and community growth. Although many of us were already of the opinion that a community development corporation committed to low income neighborhoods was needed. The new CDC chose to begin with a family housing project in the location of the center of the summer disorders. State policy at the time reflected the HUD policy of building high-rise family buildings. The NCC planning group, consisting of about sixty families in need of housing, wanted six five-story buildings of 120 units to be built around a court yard without any interior hallways. The State officials at the time rejected the proposal as being too costly or as it was stated, "*too **nice for poor people.***"

THE PRESENT

It was not until 1975 that the first housing project, New Community Homes, was ready for 120 families. After this project, progress was much faster. Today, NCC owns and manages 2500 units of housing, all for low income. NCC has its own management, maintenance, security, and social service staffs. The security force employs 120. In the health area, NCC has a 180 bed, completely Medicaid, extended care facility. There is an adult medical day care program for 100, a medical home care program for 400, a homemaker program for 380, a group medical practice, and medical transportation. There are six nutritional sites and meals on wheels for homebound. The NCC kitchens produce over 3000 subsidized meals each day.

What is being built is a community where people have power over their lives. It is a complete community, having something for every age and opportunities for all. NCC is graffiti-clean for the complex belongs to the people, it is their community, their managers, their security, and their maintenance men.

The first major supermarket in the Central Ward in 30 years became a reality in July of 1990. ***Pathmark*** has received national attention. Food is now 38 per cent less expensive than in local stores and it is much closer than suburban food markets. ***Pathmark*** also produces 220 local jobs, offers opportunities for community health and nutrition programs, and fosters community pride. It is also profitable to the community since 2/3 of the profits remain n the community. Yet, it was the result of an eight year struggle. Fortunately, we had a great partner in Supermarkets General, the parent group of ***Pathmark***, who were with us all the way. Others who helped

were HUD, with an Urban Development Action Grant; the State of New Jersey in many ways, including a low interest loan; Newark with Community Block Grant funds; Prudential offering a social investment for the first mortgage.

An affiliate of NCC is Babyland Nursery. Babyland has six day care centers with 630 children. Babyland VII is under construction. One of the centers is for HIV positive children, another for abused children, and another for children of homeless families in transitional housing. Babyland was the first infant day care center in New Jersey. Babyland started in 1968 in an apartment in Scudder Homes. At the time it was the largest public housing complex in the State. Babyland began not with government, foundation, or business money, but with a dream of Mary Smith and a group of other mothers living in public housing, seeking a way to mind their children and at the same time work and support their families. Joining these inner city women was a wonderful group of suburban women, who, against the advice of others, wanted to help make this dream a reality. They took turns cooking lunch and volunteering so the day care fees could be affordable. I recall a woman with a five month old child coming to Babyland. Her husband had just died and she needed to go to work. She had obtained a job at the telephone company but she had no one to keep her child. There was joy real in her heart when she found temporary loving care for her child. In fact, she also found a home, for today she is a member of the Babyland staff.

Training is offered in five areas to expand career skills for growth within the NCC network. By May of 1993, NCC will be offering career training for others outside the network. Presently, NCC assists about 100 welfare recipients each year to move off welfare and to become Home Health Care providers, thus enabling the frail and elderly to remain independent in their homes. Credit courses in early childhood education are offered on site. It is a happy occasion to see fifteen caregivers graduate with eighteen credits in early childhood education.

New Community operates its own social service system for all residents. It also has its own youth workers in order to integrate the youth into the community life. NCC also services the wider community with special programs for at-risk youth, including a youth intervention program for pre-adolescents.

New Community operates 102 units of transitional housing for the homeless serving between 320-330 individuals. The facility has a complete program to assist the homeless, including case management, day care, health, basic education, job training, and more. The goal is simply self sufficiency. Interestingly enough, it costs less than a welfare motel but a mother need not place the milk in the toilet in order to keep it cold or serve food at room temperature since there is no place to heat the food. For now there is a kitchen and a sitting room in each apartment. Harmony House has become a model for the nation on how to care for homeless families. It is not a warehouse but a home. It is an opportunity for NCC to help homeless families to change their direction in life.

The Employment Center placed into jobs over 1000 each year for the last four years. New Community's economic development efforts include the Priory Restaurant, World of Foods, Dunkin' Donuts Franchise, Print Shop, uniform manufacturing, grocery delivery, MailBoxes, Etc., and a Health Spa - all part of the creation of over 1200 jobs.

No City will ever be great unless its neighborhoods are healthy. New Community is devoted to neighborhood development and, in fact, we target poor neighborhoods. A City needs a middle class but in our eyes, the potential for a middle class is already in Newark and in its poor. NCC began with a twenty year plan and the original board of NCC was asked to commit to twenty years. Long range development efforts are as important as targeting poor neighborhoods if a CDC is to make a significant impact.

In September 1992, we began the celebration of the 25th anniversary of NCC. It will be not only a celebration of the past but also a thrust into the future. For this reason, the New Community Foundation is being reorganized. A group representing the larger community gives significant support to NCC. Of the 46 persons asked to serve on the Foundation Board, we are delighted that 43 accepted. New Community Foundation began in 1967 at a time when polarization of the races had reached the point of violent confrontation. The vision of Martin Luther King, Jr. was seen as God's alternative vision of society, that is, people from different backgrounds working together to contribute to the solution of today's social problems. The Foundation is one means of helping people to help themselves. As one member of the original suburban supporters once said, ***"one is either part of the solution or part of the problem."***

THE FUTURE - The Five-Year Economic Development Plan

Introduction

Over the past three years, the New Community Corporation has prepared extensively to initiate a new economic development program and urban careers initiative in Newark, New Jersey. Newark is one of the most impoverished urban areas, with the lowest per-capita income of all the nation's cities. Newark, like other older inner cities in the United States, is becoming increasingly isolated from the modern American economy. All of the economic trends indicate growth in the suburbs and stagnation in Newark. The modern "service economy" requires higher levels of education and training than are available amongst urban residents. The failures of the public school system and of the traditional vocational training systems have left most employers uninterested in hiring urban residents, even at minimum wage. What is needed is a new approach to human capital development in the cities.

Plan Summary

The plan has eight tracks.

The **first track** is a career development program within New Community. Many of NCC's 1200 jobs are entry level. Yet, NCC has 167 employees with degrees, 57 of which are masters and doctoral. On the one hand, NCC has many with limited skills but highly motivated. On the other hand, NCC has its own built-in faculty. This offers NCC a wonderful opportunity of developjng the entire NCC network into a career development opportunity for minorities since 93% ot the employees of NCC are minority. Presently, NCC is the ninth largest non-government employer in Newark and with a growth rate of over 20 percent, it will soon be the largest.

The **second track** is the creation of a Comprehensive Education and Training Program to include those not within the present NCC Network. The resources of NCC joined with government and private partnerships could produce the most significant comprehensive education program.

The **third track** is the formation of an advanced Technical Training Program in partnership with the New Jersey Institute of Technology. The interest in converting advanced military technology to civilian use and NCC's mission to further use this technology base to promote the economic opportunities of the poor offers a unique opportunity. The obvious partnership of NCC and NJIT needs to be expanded to the military.

The **fourth track** is the creation of the NCC Small Business Development Office with access to loan funds under the control of NCC so technical assistance and financial help can go hand in hand.

The **fifth track** is the development of NCC owned and NCC employee owned businesses. The existence of eight for-profit NCC businesses could be expanded and NCC's own purchasing can assist both new small business development and the expansion of NCC businesses.

The **sixth track** is housing production which should become a major element in economic expansion. The need is overwhelming and the possibility to both meet a basic need of shelter and to create jobs is truly exciting.

The **seventh track** is the creation of the financial institutions necessary for this effort to be successful to further the creation of jobs.

The **eighth track** is the capital construction program of NCC. It will create jobs but most importantly serve the needs of low income people. It will also assist them in achieving the American dream.

Plan Description

TRACK ONE - *Career Development Program*

The first track is to use the NCC work network as a career development school. The goal is to produce work-based, user friendly, lifetime learning using the NCC work network as the base. In January 1993, the NCC Board established a Human Resource Career Development Office with the Director being a member of the Executive Management Team of NCC so that the commitment of NCC to career development would be established. Further, two percent of payroll would be dedicated to career development and all the skilled personnel within the NCC network would be available as trainers outside of the cost of this program.

The friends of NCC have responded beyond belief. The newly formed New Community Foundation, through its Education and Training Committee, has offered *free* training slots in its own education and training programs led by **Johnson & Johnson** and **Prudential.** In other words, NCC can send NCC employees to **Prudential** and **Johnson & Johnson** for training without cost.

The New Community Foundation with 45 top executives serving on a voluntary basis and working within six committees, includes four college presidents who are committed to creating an open enrollment, no tuition, core freshmen curriculum for NCC employees allowing them to select their future program and college at a later date.

NCC, with the encouragement of Bloomfield College is establishing work based career courses within the NCC Network. This is the ***NCC-Bloomfield College Partnership.***

TRACK TWO - ***Comprehensive Education and Training Program***

The New Community Corporation has devised tracks two and three as a plan to train outside of NCC's needs and revitalize the Newark economy and to bring opportunity back to its people. The second track is to initiate an advanced vocational training system designed around the needs of the urban poor. This program will raise the employability and earnings potential of Newark residents. The third track involves the creation of jobs and economic opportunities in Newark through high-tech manufacturing ventures accomplished in cooperation with federal research agencies and local universities. These two initiatives go hand in hand; high-tech manufacturing can only survive if it can draw on a well-prepared workforce, and a trained workforce needs employment positions that offer more opportunity for advancement than the typical urban employer currently offers.

The starting point for NCC's urban careers initiative will be the ***Bergen St. Vocational Skills Center,*** a state-of-the-art facility that will be designed around the advanced training techniques developed by the Center for Employment Training of San Jose, California. The C.E.T. methodology is a self-paced, open-entry form of vocational training that combines basic skills remediation along with specific life-skills development and social services delivery. Providing such services simultaneously, "in the context" of the specific career goal, creates a synergy and stimulates an interest level that does not occur in traditional vocational training.

A 1989 study performed by *Mathematica* showed C.E.T. to be more effective in preparing minority single low-income parents for employment and increased earnings levels than a group of 3 traditional training programs. The study involved 8,000 women, and showed a 27% improvement in employment and a 47% improvement in earnings after 12 months for C.E.T., relative to a non-trained control group, versus no relative improvement in employment or earnings for the 3 traditional programs.

Planning for the ***Bergen St. Vocational Skills Center*** is now underway. The land for the Skills Center is currently being assembled, and preliminary architect's plans are under review. The Center will be a 3-story building with 20,000 sq. ft. of gross floor area. The building will have masonry walls and a wood frame floor and roof structure. Attached to it will be a 3,500 sq. ft. day care center for trainees who have infants or toddlers. The site will also have off-street parking for at least 23 cars.

The Center will have a capacity of 250 students total in eleven different training areas. These training modules are as follows:

Health Assistants *(Records, medical office skills)*
Nursing-Related *(Nurses Aide, Home Health Aide, etc.)*
Skilled Facilities Maintenance *(HVAC)*
Automated Office Skills *(Secretary, Receptionist, Records Clerk, Word Processing, etc.)*
Data Entry/Computer Equipment Operator
Warehousing/Materials Management
Child Care Provider
Security Services
Commercial Food Service
Offset Printing

These training areas have been selected based upon current employer demands in the Northern New Jersey region, and also considering forecasted demands over the next decade. NCC will also offer two other areas of vocational training at other sites; these are Commercial Food Service and Offset Printing. NCC has a variety of commercial food service enterprises and food preparation facilities, and has the capacity to run a training program in them. These facilities are modern and in good order. Therefore, NCC would not need to duplicate a food service training area in its new facility. Also, NCC has a small print shop, and can offer training in offset press operation and other printing skills. With regard to security services, NCC has its own Security Department which patrols NCC's many buildings and facilities. Therefore, the program will be able to give the Security student much field experience. However, classroom training and basic skills remediation for the security area will be given in the ***Bergen St. Vocational Skills Center.***

Approximately 25 students at a time will be enrolled in each of these training areas. Training time will be about 6 months for the average student (the C.E.T. methodology is self-paced). Therefore, about 550 students will complete the program per year.

TRACK THREE - *Advanced Technology Training*

The third track of concentration is ***Advanced Technology Training.*** There is much interest in the conversion of military technology into civilian use and DARPA, the federal agency entrusted with this task, has always funded research which had valuable scientific purpose, but only marginally certain military application. DARPA was responsible for much of the resources available to the ***Advanced Technology Training*** of FOCUS HOPE, Detroit.

The following are areas which could enjoy DARPA assistance and create jobs with a future:

Metal working and machinery
Plastics fabrication
Electronics
Textile/apparel
Food processing
Health services and allied health
Information services technology occupations
Housing manufacturing
Construction materials for the future
Environmental
Automated security
Development and processing of micro-batch customized
patent-specified drugs

New Community would seek partners in the higher education community to pursue some of these initiatives.

TRACK FOUR - ***NCC Small Business Development Office***

The fourth track is the creation of the ***NCC Small Business Development Office.*** NCC would be certified by U.S. Small Business Administration and form a partnership with NJEDA. Technical assistance and small business loans should go together. NCC/SBA could package loans for funding within its own funds for business development, including the New Community Federal Credit Union and new capital funds for development and new ventures.

TRACK FIVE - ***NCC Business Development Plan***

New Community's own business development forms the fifth track in an economic development program.

New Community Corporation could itself develop new businesses as part of a five-year plan to add 1000 new jobs. NCC would also create employee-owned businesses so that the economic growth of the community and individual ownership will grow together. This could include a housing manufacturing corporation and other business efforts such as auto repair, textile/fashions, and data input. The present growth of NCC should by itself create 500 jobs in the next five years.

TRACK SIX - ***Housing***

NCC needs to create a steady pipeline of new housing and expand from its present concentration on low income rental housing to include moderate income rental and sale. NCC should develop ***Chelsea Construction*** (NCC's construction company) into a moderate rehab housing construction company. NCC's present multi-trade maintenance operation would make this expansion into rehab easy.

TRACK SEVEN - ***Creation of New Financial Institutions***

The seventh track is the expansion of existing financial resources and the creation of new financial institutions. The New Community Federal Credit Union is chartered as one of 133 community development credit unions in the Nation and, as such, can accept non-member deposits. This valuable financial resource can not only serve local needs including 168 loans in 1992 - 60 for education purposes - but with little change can help serve in the creation of small family businesses. Many of the functions of the proposed community development banks of President Clinton can be served by community development credit unions.

The New Community Social Investment Program can be expanded to provide seed money and equity funds for NCC for expansion of business operations. The development of an NCC construction fund and the creation of an NCC equity fund sponsored by the New Community Foundation could have real impact in establishing a faster and a financially sounder base for economic and housing expansion.

To assist small and medium size businesses, NCC needs to establish a development fund and a venture capital fund. The greatest impact in facilitating economic growth will be the centering of resources within one office. NCC has always been good at networking and leveraging resources.

TRACK EIGHT - ***Capital Construction Program***

The eighth track of an NCC economic package should include a capital construction program which can be implemented immediately.

1. **ST. JOSEPH'S ANNEX** **($500,000 rehab)**

    7000 sq. ft. of additional office space for NCC
    Permanent financing committed

2. **C.E.T. SCHOOL** **($3,553,000 new construction)**

    20,000 sq. ft. classroom
    3,500 sq. ft. day care
    Rescurces: **$ 900,000 Grants**
    2,653,000 NJ State loan

3. **GARAGE** **($ new construction)**

    Central Maintenance garage for NCC fleet of 90 vehicles
    Training Center for automotive CET training

4. **HOME HEALTH CARE Office Facility** **($1,350,000 new construction)**

    18,000 sq. ft. three-story office building
    - Home Health Care
    - Home Friends
    - Medical transportation
    - Classroom CET Home Health & Nursing Home Aide Program

5. **ORANGE STREET EDUCATION CENTER $3,000,000 total cost)**

3-Story Education Center - new construction
21,000 sq. ft.
- Babyland IX
- Adult Education Center
- Computer Education Center
- Support education programs for elementary school
- Conference Center/Multi-purpose Hall

6. **NEIGHBORHOOD RECREATION CENTER ($2,100,000 new construction)**

Financing committed - NCC and City of Newark

7. **NCC ESTATES ($5,600,000 new construction)**

56 unit townhouse complex
Financing committed

8. **HAYES HOMES ($23,000,000)**

206 units - 2 buildings substantial rehab
Public housing conversion to private ownership
Pending HUD.

The present five year plan may seem to some to be ambitious. It is not. Most of the plan will be completed long before the end of the five year period. If one CDC can accomplish this, consider what is possible with the existence of targeted Federal resources on even a moderate scale. The impact in poor neighborhoods would be signifiant and federal funds would only be a small part of the total commitment. The Federal Funds would be used to leverage significantly larger sources of funds.

Chairman MARTINEZ. Thank you, Monsignor. On that last note, you know, about CDCs as an American concept, it is. The funny thing about it is—oh, it has been quite a number of years now, quite a few years back—a bunch of us from the Education and Labor Committee were invited to visit with the Secretary of Labor from England.

In that visit with him, he disclosed something, that enterprise zones was a concept created in England, and that Jack Kemp visited there and thought this was the most fantastic idea and brought it back. And it is about that time that Jack Kemp started with the enterprise zones. That's where it originated in this country, with Jack Kemp.

The problem that Jack Kemp did not see is that, after a very short while, England gave up on enterprise zones. They realized they didn't work, because they brought people from the outside into communities and didn't empower the community itself. As a result, they were still considered outsiders after the frustrations and the defeats built up among those people in those small communities—all communities—I'm not just talking about minority communities; I'm talking about any poor community, white, black, or otherwise.

When that frustration builds up, they look at those people who have been taking everything out of the community, not putting anything back—I realize that a lot of larger companies now are seeing where they were wrong in doing that and now, in some ways, trying to put back, through scholarships and other little programs, into the community. But they can never—can never—put near enough back into the community for what they took out to eliminate the resentment of that community.

So England, in its wisdom, dumped enterprise zones and went to CDCs. They stole the idea from us, and they have been very successful with it. So, here again, I agree with you that this is not necessarily only a contribution to our national problems but maybe the world problems too.

At this point, I would like to turn to a delightful gentleman I met last night and I had the opportunity to talk to last night. I was very impressed with his ideas and his thinking. He is Roderick Mitchell from Brooklyn, New York.

Roderick.

Mr. MITCHELL. Thank you and good morning, Congressman Martinez and the members of the committee. I would like to say a special thank you to my Congressman Owens from Brooklyn and also our dear friend and supporter, Congresswoman Molinari, from Brooklyn also. Hi.

I was just reflecting on some of the previous testimony, and I really wanted to piggyback on what the Monsignor said relative to the ability of CDCs, especially the first generation CDCs, to serve as mentors and to serve as groups that have the capacity to impart technical assistance and training to the emerging CDCs.

The fact is that he is correct in stating that we are taxed heavily by visits from other groups, not only nationally, but internationally also. Our written testimony that was submitted reflects the fact that over the last several months we have been visited by groups

from Japan, from Mexico, from Ireland, all looking to reproduce similar models of the CDC concept in their countries.

I would like to briefly give certain portions of the written testimony that has been submitted, because I think it accurately reflects our attitude towards H.R. 818 and the role of CDCs in the development process in inner cities.

The Bedford Stuyvesant Restoration Corporation, or we like to refer to it as Restoration, is the Nation's first community development corporation. It was established in 1967 with the bipartisan support of the late Senators Robert F. Kennedy and Jacob K. Javits and with active participation of local residents. The mission of Restoration is to promote the physical, economic, and social revitalization of Brooklyn's Bedford Stuyvesant community.

Restoration is located in the heart of Bedford Stuyvesant's central business district. In 1971, the corporate headquarters were opened at its present site, moving from downtown Brooklyn into a 117,000-square-foot building that currently houses a performing theater of 214 seats, a professional visual arts gallery that has a national and international reputation, a dance studio for youth, two colleges, a professional recording studio, several community rooms and all-purpose rooms.

In addition, several years later, we were able to add an additional 300,000 square feet of commercial and office space that serves as a business incubator for retail, medical, and other social services. Approximately 5,000 community residents pass through Restoration Plaza daily, making it, in essence, the city hall or downtown of Bedford Stuyvesant.

In its 25 years of service to Bedford Stuyvesant, Restoration has fostered construction, rehabilitation, renovation and/or weatherization to over 11,000 units of housing, commercial space, provided over $60 million in home mortgage loans at a time when redlining was the rule in Bedford Stuyvesant. We have provided over $9.5 million in small business loans, and we currently have a revolving loan fund that continues to be extremely successful.

We have developed an outpatient health care facility that currently has over 50,000 patient visits annually, and it focuses on preventive health care as opposed to emergency treatment. We have established three major art institutions. We have forged a joint venture with Supermarkets General Corporation to open a quality supermarket in Bedford Stuyvesant. In addition, we recently opened Restoration Safe Haven, a youth education and development initiative for youths at risk of underachievement.

During the decade of the 1990s, Restoration has focused its programmatic thrust on youth and the family. This new emphasis moves us beyond low-income housing, and we are now focusing almost exclusively on youth leadership through economic involvement, through education, through job training, and through community image-building and cultural and educational institution-building. This approach is a continuation of our 26-year history of comprehensive development and the institutional presence of Restoration in Bedford Stuyvesant.

While it is important to build a base for the community development corporations of this country based upon quantitative achievements, sheer numbers alone are not the key to the significant role

that CDCs play in low-income communities. This is especially true of the first generation CDCs, groups with 20 or more years of experience. Typically, these groups have evolved into indispensable institutions of change that respond not only to direct programmatic efforts to stimulate development but also serve as agents of stability and hope which encourage others to invest within low-income communities.

These efforts take many forms and are as costly and as important to the socioeconomic vitality of underdeveloped areas as any combination of direct transfer payments and/or economic stimulus packages. In fact, sustained, indigenous development in underserved communities is predicated upon this very phenomenon.

While our mission continues to be the stimulation of activities which lead to the improvement of the fabric of life in Bedford Stuyvesant, our approaches are not and cannot be narrowly defined, because the demands are dynamic. In fact, the success of CDCs in providing opportunities for change in low-income communities is in large part attributable to their flexibility and intimate knowledge of the communities they serve.

Successful and effective legislation designed to alleviate poverty and underdevelopment must take these factors into account rather than to rely upon narrowly-defined, static objectives. This was the basis for the legacy created by the Kennedy-Javits Special Impact Program of the 1960s.

We at Restoration are the strongest proponents of the need to establish new initiatives that provide direct, efficient, quantifiable efforts to fund capital needs, create businesses and jobs, and leverage funds for community services.

Because of our history and based upon our experience, we also know that we must be equally diligent in creating these initiatives to reflect the fact that we are dealing with people, not statistics, that our communities require fundamental, sustainable change, not quick fixes, and that none of these objectives are possible without large-scale, institutional funding and partnership of government, business, and community. That is the tradition of the CDC movement, and it is an indispensable element of our future. It must be nurtured and encouraged to grow.

We strongly support H.R. 818, and we are willing to do whatever is necessary to help see that this important piece of legislation is passed.

Congressman Martinez, on behalf of Ms. Sadie Feddoes, chairperson of the Bedford Stuyvesant Restoration Corporation, and Mr. Richard K. LeBlond, II, chairman of the Bedford Stuyvesant D&S Corporation, the board of directors, and citizens of Bedford Stuyvesant thank you for your leadership in this most important endeavor.

[The prepared statement of Roderick Mitchell follows:]

A BRIEF HISTORY

The Bedford Stuyvesant Restoration Corporation (Restoration) is the nation's first community development corporation (CDC). It was established in 1967 with the bipartisan support of the late Senators Robert F. Kennedy and Jacob K. Javits, and with the active participation of local residents. The mission of this not-for-profit corporation is to promote the physical, economic, and social revitalization of Brooklyn's Bedford Stuyvesant community.

When Senator Robert F. Kennedy visited Bedford Stuyvesant in 1966, he found a severely depressed community with high unemployment, deteriorated housing and commercial spaces, and inadequate public services. While Senator Kennedy was appalled by what he saw and heard, he was deeply impressed by the concerned citizens he met and the tremendous brownstone housing stock. He was particularly impressed with the large groups of working-class homeowners who took pride in their block and their community.

Senators Kennedy and Javits successfully proposed an amendment to the Economic Opportunity Act of 1964 which established the Special Impact Program-- the program that provided the initial public funding for Restoration and other first-generation CDC's across the nation.

By combining private and public capital with the energies and needs of community residents, the Corporation has enriched the lives and expanded the economic horizons of the area's 300,000 residents by serving as a risk-taker and a catalyst for development within the community.

Restoration is located in the heart of Bedford Stuyvesant's central business district. In 1971, the headquarters opened at its present site, transforming the deteriorated Sheffield Milk Bottling Plant into a modern, 117,000 square foot oasis with a theater, art gallery, dance studio, college classrooms, a recording studio, two community rooms, and an outdoor ice skating rink.

In 1975, the Sheffield Building was further enhanced with the addition of 300,000 square feet of commercial and office space that attracts much-needed retail, medical, educational, and social services. Approximately 5,000 community residents pass through Restoration Plaza daily, making it, in essence, the "City Hall" or "downtown " of Bedford Stuyvesant.

The Corporation is not a human service agency in the traditional sense. Restoration seeks services, initiatives, and resources that are mutually--reinforcing, joint-ventures, or collaborations. These efforts forge new and productive partnerships that are essential to community rebuilding--joint-ventures with businesses and joint-efforts with the community whose ultimate objective is local ownership and private initiative.

In its 25 years of service to Bedford Stuyvesant, Restoration has fostered construction, rehabilitation, renovation, and/or weatherization to over 11,000 units of housing and commercial space; $60 million in home mortgage loans; $9.5 million in small business loans; over 20,000 job placements for youths and adults; established an outpatient healthcare facility that services 50,000 patients annually; established 3 major arts institutions; forged a joint-venture with Supermarkets General Corporation to open Restoration Pathmark, the first quality supermarket in the area in over 20 years; implemented Restoration Safe Haven, a youth education and development initiative for youths at risk of underachievement and substance abuse operated in conjunction with the local schools, churches and businesses.

Today we find ourselves in a world where the boundaries of community are expanding and becoming more global and more inclusive. We are challenged more than ever to address the problems that keep urban communities like Bedford Stuyvesant in the cycle of poverty. Restoration has garnered respect and admiration, not only as the nation's first community development corporation, but for its success as a catalyst for change and as a national model for urban revitalization.

During the decade of the 90s, Restoration has focused its programmatic thrust on "Youth and the Family" in order to ensure a sound basis for future development efforts. This new emphasis moves us beyond low-income housing, a cornerstone of many community development programs, to tackle a range of additional problems--youth leadership and development, local entrepreneurship, job training, economic development for job creation, community image-building, and cultural/educational institution building.

This approach is a continuation of our 26 year history of comprehensive development and the institutional presence of Restoration in Bedford Stuyvesant. While it is important to build a base of support for the community development corporations of this country based upon quantitative

achievements, sheer numbers alone are not the key to the significant role that CDCs play in low-income communities. This is especially true of the first-generation CDCs--groups with twenty or more years of experience. Typically, these groups have evolved into indispensable institutions of change that respond not only to direct programmatic efforts to stimulate development but also serve as agents of stability and hope which encourage others to invest within low-income communities. These efforts take many forms and are as costly and as important to the socio-economic vitality of underdeveloped areas as any combination of direct transfer payments and/or economic stimulus packages. In fact, sustained, indigenous development in underserved communities is predicated upon this very phenomenon.

As president of Restoration I can attest to the fact that the most important role of established CDC's is to create a favorable psychology and provide the necessary support structures--whether physical, educational or cultural, in order to create investment from without and from within our communities. It is no accident that the center of economic activity in Bedford Stuyvesant radiates from Restoration Plaza which serves as a multi-purpose clearinghouse for information, resources and business incubation. The impact of our organization can best be illustrated by four examples which show how we are viewed by others:

<u>EXAMPLE I.</u> - Our secretary was called by a woman who asked, "Is this the Restoration?" Upon receiving confirmation, the woman then proceeded to frantically tell the secretary that the house next door was on fire and asked what should she do.

<u>EXAMPLE II</u>. - Our security director received a phone call from a young child (approximately 7 years old) who wanted someone from Restoration to assist because he could not wake up his father. The child knew our telephone number and was more comfortable calling us than 911.

<u>EXAMPLE III</u>. - We have recently been visited by groups from Mexico City, Ireland, the Netherlands and Japan, all seeking to establish institutions similar to Restoration in their respective countries. They are already convinced of the effectiveness of and the need for the CDC model.

<u>EXAMPLE IV</u>. - A local businessman attempting to open a small restaurant was denied credit by several banks and government financial agencies. Convinced that he would be successful and determined to open the business, he turned to Restoration for help. We were able to provide him with start-up capital through our revolving loan fund and assist in writing a business plan to attract additional capital.

These examples are intended to show the importance that people attach to our work and the wide range of demands placed upon us. While our mission continues to be the stimulation of

activities which lead to the improvement of the fabric in life in Bedford Stuyvesant, our approaches are not and cannot be narrowly defined because the demands are dynamic. In fact, the success of CDCs in providing opportunities for change in low-income communities is in large part attributable to their flexibility and intimate knowledge of the communities they serve. Successful and effective legislation designed to alleviate poverty and underdevelopment must take these factors into account rather than to rely upon narrowly defined, static objectives. This was the basis for the legacy created by the Kennedy - Javits Special Impact Program of the sixties.

We at Restoration are the strongest proponents of the need to establish new initiatives that provide direct, efficient, quantifiable efforts to fund capital needs, create businesses and jobs and leverage funds for community services. Because of our history and based upon our experience, we also know that we must be equally diligent in creating these initiatives to reflect the fact that we are dealing with people--not statistics, that our communities require fundamental, sustainable change--not quick fixes and that none of these objectives are possible without large-scale, institutional funding and partnership of government, business and community. That is the tradition of the CDC movement and it is an indispensable element of our future. It must be nurtured and encouraged to grow.

The Bedford Stuyvesant Restoration Corporation is supportive of H.R.818, the Community Services Empowerment Amendments of 1993 because it recognizes the fundamentally different roles that first-generation CDCs or CSECs (Community Service Empowerment Corporation) play relative to their emerging sisters. In addition, we strongly support aspects of the legislation which provide for research, planning, training and technical assistance. I am concerned however that the proposed legislation places a 10% cap on funds for administrative costs. Empirical evidence of similar limitations in other programs show that this administrative ceiling is unrealistically low and forces organizations to spend an inordinate amount of time funding the administrative shortfall in order to implement projects. This in essence is equivalent to a direct subsidy which CDCs cannot afford.

Even so, this important piece of legislation must be passed because it captures the spirit of the visionary leadership of Senators Kennedy and Javits while adapting to the economic and political realities that currently exist in this great nation.

Congressman Martinez, on behalf of Ms. Sadie Feddoes, Chairperson of the Bedford Stuyvesant Restoration Corporation, Mr. Richard K. LeBlond II, Chairman of the Bedford Stuyvesant D & S Corporation, the Board of Directors and citizens of Bedford Stuyvesant, thank you for your leadership in this most important endeavor.

BEDFORD STUYVESANT RESTORATION CORPORATION
1967 to 1992
25 YEARS OF MAKING A DIFFERENCE...

IN HOUSING

- Constructed/rehabilitated 2,225 units, including a 150-unit senior citizens complex and a 36-unit permanent housing facility for homeless families, elderly, and physically handicapped
- Provided facade improvements on 4,200 homes, employing hundreds of youth workers
- Weatherized housing (over 4,800 units) for low income persons and the elderly
- Provided mortgage loans totalling $60 million to facilitate local home ownership
- Sold over $3 million of predominantly one- to six-unit brownstone/brick veneers mostly to local residents

IN ECONOMIC DEVELOPMENT

- Facilitated the construction of an IBM manufacturing facility in Bedford Stuyvesant
- Joint-ventured with Supermarkets General to open the first large, quality supermarket in the community in 20 years
- Created Platinum Factory, a 25-track professional recording studio
- Constructed Restoration Plaza, a 300,000-square-foot commercial complex in the heart of Bedford Stuyvesant that houses 80 tenants and employs over 800 persons (home of two colleges, three banks and numerous social service agencies)
- Renovated 50 storefronts in the Fulton/Nostrand business corridor
- Provided $9,500,000 in loans to 134 local businesses which resulted in 1,500 additional jobs
- Started several small businesses which were sold to community residents or served as the forerunner to existing businesses

IN CULTURAL DEVELOPMENT

- Created the Billie Holiday Theatre, a 214-seat nationally acclaimed theatre
- Created the Center for Art and Culture, an exhibition and teaching visual arts center
- Created Restoration Dance Theatre, which provides 200 children annually with African/Caribbean dance instruction and international travel/cultural exchange opportunities
- Provided free art/music performances annually in the outdoor plaza
- Sponsored the annual Robert F. Kennedy Memorial Skating Party, which has benefitted thousands of local, underprivileged children
- Sponsored the Restoration 10-Kilometer Community Run for 13 consecutive years

IN SOCIAL DEVELOPMENT

- Placed over 16,300 persons in jobs through employment programs
- Placed over 5,000 youths in summer jobs
- Sponsored thousands of local children in sleep-away summer camp and after-school programs
- Established an ambulatory health care facility specializing in preventive care for families, with over 32,000 patient visits annually
- Served as a national and international model of community development for hundreds of visitors annually

BEDFORD STUYVESANT RESTORATION CORPORATION
CONTINUING TO MAKE A DIFFERENCE IN THE FUTURE...

IN HOUSING

- Will upgrade an existing 900 units of low-income housing
- Will construct affordable housing for moderate income families
- Will develop internal property management capacity
- Will complete construction of a 10,000-square-foot playground and medical/social service office at newly-renovated housing for homeless project
- Will develop additional housing for senior citizens
- Will continue to weatherize a minimum of 300 residential units for special needs populations
- Will continue to provide technical assistance on housing matters

IN ECONOMIC DEVELOPMENT

- Will upgrade **Restoration Plaza** by installing state-of-the-art energy plants, making structural improvements, and waterproofing the complex throughout
- Will enhance and expand the community's use of the commercial center by broadening the scope of existing services and adding new services
- Will develop a new retail business in a newly renovated 3,000-square-foot property, providing needed commercial services and hiring local residents
- Will restructure and expand the existing Revolving Loan Fund to aid local business and commerce development
- Will develop a new supermarket (50,000 square feet) to provide better shopping and more jobs

IN CULTURAL DEVELOPMENT

- Will completely renovate the 214-seat **Billie HolidayTheatre** including new seats, electronic motion message display, and audiovisual equipment
- Will completely renovate the **Center for Art and Culture**, including a gift shop and workshop space
- Will construct a new facility dedicated to the arts and education
- Will expand the accessibility and attractiveness of the arts and cultural activities to broaden community participation—especially by young people and families

IN SOCIAL DEVELOPMENT

- Will fully implement "**Restoration Safe Haven**", a youth education and drug prevention initiative through which youngsters ages 6 to 14 are integrated into existing art, culture, education, and social programs at **Restoration**. With family involvement and support, and under the leadership of professionally trained counselors, the youth will develop the problem-solving ability, personal discipline, social competencies, and self-esteem to resist the temptations of the streets.

Chairman MARTINEZ. Thank you, Mr. Mitchell.

I want to start the questioning with Ms. Molinari.

Mr. BAESLER. Mr. Taylor hasn't spoken.

Chairman MARTINEZ. Oh, I'm sorry. I thought—well, I heard you so much last night, I forgot all about you.

[Laughter.]

Chairman MARTINEZ. While we are doing that, I would like to announce that all of the complete written testimony will be entered in the record in its entirety.

Also, I would like to recognize Mr. Owens at this time.

Is Mr. Mitchell one of your constituents?

Mr. OWENS. Yes.

Chairman MARTINEZ. Would you like to say a few words?

Mr. OWENS. Not at this time.

Chairman MARTINEZ. Okay. But Mr. Owens has joined us now. Mr. Taylor.

Mr. TAYLOR. Well, I'm sorry. I didn't know I talked so much last night.

[Laughter.]

Chairman MARTINEZ. I was just kidding. I just simply was finding an excuse for forgetting you.

Mr. TAYLOR. Yes. That's all right. Thank you, Mr. Martinez.

Congressman Baesler, good to see you, from Kentucky, and the other members of the subcommittee.

Every time I try to read something, my glasses fall off my nose, so I will just chat with you for a few minutes.

MACED, which stands for the Mountain Association for Community Development, is a nonprofit CDC based in Berea, Kentucky, right in the foothills of the Appalachian Mountains. We are small. I feel overshadowed by these big guns at the table here with all of their numbers, but I hope I can leave you with the idea that even a small CDC in a rural area can do some very innovative things, as I think we have done in the past.

I also think some of what I will say is very related to what the purpose and the spirit is of this bill, which we certainly applaud, both us and for the other CDCs in rural and urban America.

We were created in 1976 really with the idea that we would give technical assistance to other small community groups. That is very hard to do when you only have a staff person of one, no money, and an enormous geographical area, as even the Appalachian region of Eastern Kentucky is, with the difficulties of getting back and forth to some of these community groups, and also seeing the need for really persistent and continuous and personal follow-up with those groups if, in fact, you are going to give technical assistance.

I think that's important to consider, given that is one of the elements in this bill, one of the intents.

We then looked for strategic interventions, big differences that we might make to overall economic sectors or to removing some obstacles to development that we saw in the region.

One of the first that we ran into was just the dilapidated state of housing throughout Eastern Kentucky. When we got to the causes of that, we found that most of the rural banks, all of which at that time were certainly very small—we have 120 counties, and most of

the banks would only cover that small county—were giving mortgages and requesting up to—demanding, not requesting—up to 33 percent downpayment and payment of the entire loan within 10 years.

One of the problems, in interviewing banks, we found was that they had no access to the secondary mortgage market in this country, most of which was really designed for urban banks and urban customers of those banks.

We hired a consultant with a foundation grant and went to work on that, organized 94 of the 106 banks into a consortium within Eastern Kentucky, and then went after, with that power base, conversations with Federal officials in changing the regulations and the policies, particularly on Freddie Mac, somewhat with Farmers Home Administration, so that banks, not only in rural Kentucky, but rural America could take advantage of that secondary mortgage market.

That has made an enormous difference throughout the region, in terms of more affordable mortgages now being offered by these banks. Therefore, the housing stock has improved enormously throughout the rural region of Kentucky and we think, to some extent, in other rural parts of the country. It also helped us gain a little bit of goodwill from the banks, who saw that this was a profitable business to be in. They kind of remembered that we helped them get that access.

We looked at the whole coal economy and saw very clearly, a number of years ago, that although production was staying at all-time highs, that employment was constantly going down because of increasing mechanization of the mines. We looked at the next obvious sector for job creation and realized that it had to be within the forest products area.

We have worked consistently for about 15 years at the lowest level, in terms of modernizing the sawmills, many of which are very, very small and are owned by many low-income people. It's something that you don't need a lot of capital to start; you can do it in your backyard. A lot of coal miners were doing it, in fact, in the times that they were laid off.

So we worked on helping them modernize the equipment, getting access to market price information, which was being refused to them, so that they could get a fair price for the lumber that they were cutting.

We did a lot of work in trying to increase the amount of lumber that was being kiln dried within the State and even did a manual for investors as to how to go into that technology. With that, the percentage of lumber which is now kiln dried we think has increased from almost zero to about 20 percent, which is an enormous increase in adding value. With fine hardwoods, you can double the value by the kiln drying.

We are now working at value-added manufacturing. In fact, with the help of a Federal grant, an OCS grant, we have just announced the start-up of a company in Congressman Baesler's district, in Powell County, Kentucky, which will employ 72 people. This will be the first of that size deep in Eastern Kentucky, and we think will help influence bankers and private investors that this, too, is a

profitable endeavor that they should get into and certainly one that creates a lot of good jobs.

This has been a State priority of the State of Kentucky to do something about value-added manufacturing. They really haven't been able to pull that together very effectively. So we think we are taking the lead in that with the State and helping them carry out that priority.

In the education area, Congressman Martinez, you talked last night about the need for increasing expectations on the part of people in low-income areas. We have organized, in the 5th Congressional District, which has the lowest level of adult educational attainment in the Nation, about 2,000 volunteers who are working with schools that have about 100,000 enrollment to do exactly that, to increase expectations on teachers and that the teachers have on children.

We can't claim all the credit, but we certainly try to get away with a little bit of it because of the fact that I think, more than any congressional district in the Nation, from 1980 to 1990, that percentage of adult population, the educational attainment—the percentage of the population, excuse me, that has a high school diploma or the GED has increased from 1980 from 33 percent of the adult population to 50 percent in 1990. It's just an incredible jump. So, again, we take a little bit of the credit for that one.

With a Kellogg grant, we have been working on involving citizens throughout rural Kentucky in analyzing what resources they have for economic development locally. There has been so much focus, I think, almost exclusively on the strategy of trying to steal a plant from Indiana, or Kentucky, or Kansas, or wherever we can get it, a strategy that doesn't work very effectively and certainly leaves an awful lot of rural counties all over the country out.

So we are working on bringing those people together, giving them the skills to look at, not only what financial resources they have, but what local business they have that could be strengthened to generate more jobs, what kind of skills, what kind of natural resources they have, all of the above.

On business development, this is an area that helps us generate income to be able to do some of these other things. I have mentioned foundations helping us with one program or another, but foundations get antsy after about 2 or 3 years. They want to start something, claim all the credit for it, and then drop the ball. It's hard to keep some of these initiatives that are important outside of business development without having your own source of income from business development.

So to the extent that this bill can help CDCs strengthen that arm, it makes them more, I think, self-supporting and more able to carry out some of these more interesting economic or social development initiatives.

I had my staff just do a chart of the five latest business development projects that we have done since 1990, all of these with OCS grants, by the way, which were the seed capital for this, the grants that come from Health and Human Services.

We are creating 310 jobs in a 3-year period. The OCS contribution, of all of those put together, is $2 million. The total wages on those will be $6.6 million, again, in a 3-year period. Total Social Se-

curity and medicare payments in that period, $1 million. Taxes $500,000. Reduction in Federal assistance, $1.3 million, just in that 3-year period. Because, again, most of these are going for low-income employees.

The cost per job, in terms of the Federal dollars, is $6,460, which is hard to beat in any program anywhere. I think most of our brothers and sisters in CDCs will say that they have similar type figures on the use of that Federal money.

Doing all this—and I will conclude with this, because this, to me, is the most exciting part, is getting back to that original intent, and that was giving the technical assistance to some of these smaller groups that are out there in the Appalachian Mountains—this has enabled us to look at one, and we are focusing on it, in Owsley County, which, if you saw in the New York Times or Wall Street Journal, is now the second poorest county in the entire U.S.

There is a group of mostly mountain women who have eighth grade education max, who have been refused any kind of credit from any banks up there. You know, "Bring your husband or your brother or your uncle, but we don't talk to women, and we certainly don't give loans to women." They are creating their own small businesses in Booneville, Kentucky, population about 210. They have their own loan fund now, which is capitalized at about $20,000, which they are managing and giving out loans to other low-income people who want to start businesses.

They finally—the big success—convinced the Bank of Booneville to give them a loan to buy a building for $60,000. In 1½ years' time, they have already paid down $24,000 on the principal, and they are thinking about buying a second building on that square. So impressive are they that they were featured on the front page of the Wall Street Journal, January 22—I have a copy of that here, if anybody would like to see that—just in recognition of what folks like that can do if they are given a little bit of support.

We tell them all the credit is theirs, but, honestly, if we had not been there helping them, again on a weekly basis, persistently, continuously, not only encouraging them on, making them believe in themselves and their dreams, but giving them the skills, as well, to be able to manage this kind of project, it would not be this far along.

That's the kind of thing we can do. Those are the kinds of people who are out there that do need assistance. CDCs are the people and the organizations that can get it to them.

Thank you very much.

[The prepared statement of Frank Taylor follows:]

Statement of Frank C. Taylor, President, Mountain Association for Community Economic Development, Berea, Kentucky

Representative Martinez, thank you for inviting me to present testimony on our work in rural community economic development. I hope my comments will be of use to your committee in considering legislation that increases the ability of nonprofit community development corporations [CDCs] to stimulate the economic renewal of this Nation's low-income and disadvantaged rural and urban communities.

I applaud the proposed Community Services Empowerment Amendments of 1993 [H.R.818]. If passed into law, they would significantly strengthen the impact of established CDCs like MACED and of emerging CDCs to provide entrepreneurial and employment opportunities to the people who need them most.

MACED was founded in 1976 as a private, nonprofit, 501(c)3 community development corporation. It will give you dramatic examples of ways CDCs are identifying and helping remove obstacles to the development of rural communities.

In the Appalachian area of eastern Kentucky, access to the banking system has been one of those obstacles. Research which MACED undertook in 1980 showed that the lack of affordable mortgage credit was the primary impediment to increasing single-family housing production in the region. Even without high interest rates, the 10- to 15-year amortizations and 30 percent down payment requirements that were the norm at that time meant that few households could afford the monthly payments. In addition, local banks did not use national secondary market mechanisms.

MACED did not have the financial resources to take the place of, or even significantly supplement, banks in providing mortgage lending. Instead, we networked with bankers and helped them find ways to limit their risks, protect their assets, make a profit and still increase their service to their communities.

In 1982 we convinced 94 of the region's 106 banks to form a consortium aimed at making long-term, low downpayment, fixed-interest rate mortgages more widely available through local banks. These banks, representing 95 percent of the $6.5 billion commercial banking assets in Appalachian Kentucky, formed the consortium. Banking industry leaders led the organization, but MACED staffed its daily operations behind the scenes, developing and coordinating its initiatives in discussion with its bank members.

The consortium persuaded private mortgage insurers and "Freddie Mac," the Federal institution that purchases home mortgages, to revise their policies so rural banks throughout the country could participate more easily in secondary markets. At the urging of the Consortium, Freddie Mac agreed to purchase loans in packages smaller than $100,000, to purchase loans for houses located on gravel roads, and to purchase loans for houses with larger-than-usual land parcels—changes that made it practical for the Consortium's member banks to participate in Freddie Mac. In addition, the Consortium negotiated with Freddie Mac to simplify credit checks and appraisal procedures to accommodate rural lenders. As a result of these changes and five 2-day training programs for lenders, 20 banks were approved as Freddie Mac sellers by 1985. In addition, when FmHA proposed a delegated processing program, the rules initially proposed would have made it difficult for any rural bank to participate. The Consortium worked with FmHA to redraft the rules, making the program more workable in Appalachian Kentucky as well as in the rest of rural America.

These changes held promise of more affordable mortgages. However, interest rates skyrocketed at about the same time. Faced with this new bottleneck, the Consortium organized a $30 million mortgage-revenue bond to bring lower-cost credit to a 15-county area and to give the 30 participating banks experience in selling and servicing loans. The Consortium contracted with MACED to coordinate the program.

To reduce the up-front cost of the bond to lenders, MACED invested $1.1 million in an unrated "subordinate" bond with repayable program-related investments from several national foundations. MACED's investment enabled even the most remote rural banks to participate in the bond. More importantly, MACED's investment reduced closing costs on each mortgage from 5.75 percent to 2.75 percent, making the loans more accessible to low-income families. In addition, MACED provided an outright $250,000 grant so banks could subsidize monthly payments for borrowers with annual incomes less than $20,000. The subsidies were phased out gradually over several years.

A second, similarly structured mortgage-revenue bond was issued in 1985, providing long-term, fixed-interest, low down payment mortgage loans in a 30-county area. Twenty-seven banks participated in the second issue. Together, these efforts, led by a rural CDC, have permanently changed the way Appalachian Kentucky's, if not rural, commercial banks do mortgage lending. They also have provided many families with their only opportunity to become a homeowner.

MACED also has encouraged bankers and private investors to see good investment opportunities in the region's next best resource to coal—its timber.

Almost 14 years ago MACED targeted the forest products sector as the best hope for generating significant new employment in the region. That goal became more urgent as coal mining employment decreased 31 percent in the last decade. We started by giving technical assistance to some of the more than 100 owners of sawmills in the region so that they could increase the efficiency and profitability of their operations. We produced a manual with information about kiln-drying technology and operations that encouraged sawmill owners and others to dry, and thus add as much as double the value to, the region's fine hardwood lumber.

Ten years ago almost no lumber in eastern Kentucky was dried in the region. Now at least 20 percent of it is dried before being shipped to other States or abroad for further processing. Banks now see that kiln-drying operations are a good investment and finance them more readily than they ever did before.

In 1985, with the help of an OCS grant, MACED entered a joint venture to create Century Hardwoods. This firm is a lumber wholesaler which had developed the marketing and financing skills most sawmills lack. It opened new domestic and international markets to these mills for their highest value products, making it possible for them to significantly increase production. This project created 240 full-time direct jobs in 42 sawmills and another 336 indirect jobs in the logging, log procurement and transportation companies serving those mills.

In 1992 MACED, assisted by a Ford Foundation grant, published a comprehensive study of the domestic and international markets for dimension wood products (wood cut to specific dimension for use as furniture and cabinet parts). The study included a resource guide for starting up and investing in this value-added segment of the industry. MACED held a workshop for bankers to introduce them to this new opportunity in the region.

With the assistance of one of the banks, MACED is starting up one of the first dimension manufacturing companies in eastern Kentucky, a region where official unemployment rates were as high as 26 percent in January of this year. The plant will be located in Powell County, in Congressman Scotty Baesler's District. Within 2 years of its startup this summer it will employ a minimum of 72 people, most of whom are low-income individuals. Terry Fields, the CEO of this company, is on MACED's board. He is the son of a coal miner and grew up and was educated in eastern Kentucky. He has been the director of Berea College's Student Craft Industries. He represents the region's other precious resource, its talented and hard-working people who love their region and want to make it prosper. Unfortunately, too many people like Terry Fields have had to leave the region to find a job.

MACED is providing $500,000 (12 percent of its Fund Balance) as part of a $3.4 million financing package, leveraging its resources by more than six to one. (Of the total package, $800,000 is bank financing, and $2,400,000, or 68 percent, is from non-Federal sources.) We believe the success of this startup company will encourage banks in the region to invest in similar plants.

MACED's Cumberland Fund is currently capitalized at $4.3 million, including grants and loans. Of that total it has business loans receivable of $3.9 million. Those loans are to seven ventures, all of which were unable to secure bank financing for all of their capital needs. Our financing is helping them create 565 new jobs in low-income communities with poverty and unemployment indicators far in excess of State and national averages. Overall, the Fund has leveraged its capital by a factor of more than 12 to 1, primarily with private sector debt and equity commitments. A grant to this Fund, of the type the proposed Amendments would authorize, would enable MACED to achieve a far greater total impact on job creation in the region.

MACED has found that increased lending to new and expanding businesses alone is not enough to create new employment in an economically disadvantaged region. Existing small firms in rural areas need continuous, on-site technical assistance that is not being provided by government, volunteer and university services.

In 1992 MACED created a Business Resource Center and staffed it with an entrepreneur, accountant, financial and marketing specialists. Stella Marshall, a MACED board member, serves as a special adviser to the Center. She is the director of Workers of Rural Kentucky, a nonprofit group of low-income individuals who are creating their own businesses in Owsley County, which has the second lowest median family income of any county in the U.S. Their work was featured in a front page article in The Wall Street Journal on January 22, 1993. MACED has provided substantial technical assistance, especially in accounting and financial management to this group.

Low-income business owners throughout the region say their greatest need is for improving their bookkeeping and marketing skills. Staff is now offering continuous training and technical assistance to six of these owners at their businesses to learn how to best package this help for larger numbers of businesses.

MACED, in collaboration with the State Economic Development Cabinet and the Kentucky Science and Technology Council, is implementing a model project funded by HUD to create networks among businesses in eastern Kentucky. These networks are modeled after similar successful efforts in Europe and more recently in some parts of the United States. Businesses participate in these networks to lower their costs, improve production technology, gain access to markets and become more competitive and profitable. Successful networks also enable participating companies to grow and to hire more employees. Network efforts include sharing specialized equip-

ment and services and joint purchasing, marketing and production. The wood products, automobile parts and health service firms in this region are under considerable competitive pressure and thus will be able to benefit greatly from this initiative.

The scope and accomplishments of MACED's projects demonstrate the ability of a rural CDC to effectively use venture capital. MACED's ability to plan and implement major activities has been demonstrated by the staff's conceiving and organizing two complex mortgage revenue bond issues, with innovative structures that involved many banks and elected county officials. This was the first time rural counties had joined to issue such a bond and is the only such program in the United States organized by a community development organization.

MACED's ability to leverage funds from the private and public sectors is demonstrated by the broad range of sources from which it draws both operating and capital funds and by the 12-to-1 leveraging ratio it has achieved on its investments. In the past 2 years MACED received grants totaling $1.5 million from the Ford Foundation, Kellogg Foundation, the Freedom Forum (formerly the Gannett Foundation), the Tennessee Valley Authority, the Appalachian Regional Commission, the Keith-Miller Foundation and the Bingham Foundation and in-kind contributions from the Kentucky Press Association.

In the past 11 years we have received 10 OCS grants totaling $4.15 million for economic development projects, all of which have been successfully completed or are nearing completion. Several of the companies assisted by these grants have continued to grow. One, a metal manufacturer, recently doubled its workforce to 68 due to the funding and technical assistance MACED was able to provide during the start-up phase.

The depth of MACED's relationships within communities is demonstrated by the staff's gaining the active commitment of 94 banks in addressing housing problems in the region. The staff worked closely with more than 30 county governments in putting together the bond issues, and is working on other development projects in communities throughout the 49-county region. MACED staff has also organized a network of 2,000 volunteers in 27 eastern Kentucky counties who are working to improve the quality of their local schools and implement Kentucky's comprehensive education reform.

All of MACED's projects involve local leadership and have the strong support of the State's elected officials. Virtually all of MACED's projects demonstrate the ability to establish and maintain partnerships with the private sector. Individuals and banks are making substantial financial commitments to invest in MACED ventures. Banks have made public commitments to improve housing, sending their senior officials to MACED workshops and investing time and money to bring more affordable mortgages into the area.

MACED undergoes a rigorous audit every year and has always received an unqualified audit letter. Private foundations, State and Federal governments, investors and lenders have the satisfaction of knowing that MACED maintains the highest standard of fiscal accountability.

Thank you again for the opportunity to present this testimony as an example of the effective work many rural CDCs are doing to attack some of the most pervasive and persistent poverty in this country. I will be happy to answer any questions you may have now or in the future and to provide any additional information that may be helpful in your deliberations.

Chairman MARTINEZ. Thank you, Mr. Taylor. I'm sorry about that little mix-up before.

Again, I will start the questioning with Ms. Molinari.

Ms. MOLINARI. Thank you, Mr. Chairman.

Let me initially thank the entire panel for sharing their stories of hope. You have done a terrific job of presenting a wonderful variety of how these programs can work with the right people at the helm.

I'm just going to keep an eye on you, Monsignor, because New Jersey keeps stealing too many jobs from New York. And we're going to make sure, with the assistance of Mr. Mitchell, that that doesn't happen anymore. But I can certainly see why so many people find your area appealing now under your leadership.

Mr. Mitchell, I want to thank you very much for being with us. Certainly, those of us from New York City are very proud of the work that you have done, and I hope you will pass on our good wishes to Sadie Feddoes, who is a terrific woman also and a good friend.

I just have a few quick questions, and I hope you will all indulge me, because, from a practical standpoint, I have been very familiar with the CDCs, but, in terms of how you interact with the funding, this is all very new to me. So I'm going to ask some very rudimentary questions.

If you could give me an example, either each one of you or one or two, in particular, Mr. Mitchell, relative to the percentage of your funding sources, from the Federal, State, local, and private, if there is a certain percentage you can outline for me.

Mr. MITCHELL. Sure. Currently, about 75 percent of the operating funds for what we call central administration comes from internally generated sources, investments that we have made in our supermarkets, in the commercial properties that we rent; about 20 percent comes from grants from corporations and from foundations, and that balance is administrative overhead reimbursements from various contracted programs that we operate.

Now, that excludes the program-specific grant funds that we receive to operate our weatherization program, which is State funded, or from the Section 8 subsidies that are Federal in nature, that we get for our low-income housing. We don't count that in our central administration funding, because it's all restricted funds.

Now, I would hasten to add that this is a complete reversal of Restoration's first 25 years of history. In our first 25 years of history, about 80 percent of what we call administrative funding came directly from the Federal Government, and that was through the legislation that Senators Kennedy and Javits created that became the mainstay of the Title VII programs.

Ms. MOLINARI. That's very helpful. Thank you. Is it basically the same for—Mr. Maxwell.

Mr. MAXWELL. I think the formula is pretty much the same for us. About 60 percent of our funds are internally generated from the business ventures that we are invested in. We get about 20 percent of our administrative capital from contracts where we are providing certain services, and about 20 percent comes from grants from foundations and State/Federal sources.

Chairman MARTINEZ. Would the lady yield on that?

Ms. MOLINARI. Sure.

Chairman MARTINEZ. Just so that we have a real good understanding of how this works now. You have been in existence for 26 years. I want to make it very clear that that is the beauty of a CDC, that initially you start with Federal money, but then, as Monsignor has said, you can leverage that five to 15 times, depending where you use it and how you use it and who else you get to coventure.

But, eventually, all of these CDCs have leveraged that original Federal money by millions and millions of dollars. That's why I say it's kind of silly that that has been in existence for the 26 years and the Federal Government has never really invested the kind of money it should have invested, because, if it had, the figures you're

hearing now would be extraordinarily much higher, and there would be a lot less problems in the communities where we are having the problems.

Ms. MOLINARI. I certainly agree with you, Mr. Chairman, as someone who comes into the political process as a relative newcomer and not representing an area that has been impacted by CDCs. This is a success story that has not been properly advertised to the rest of our colleagues and certainly throughout the Nation. Under your leadership, I'm sure this committee will do an aggressive job to correct that.

Mr. Beaulac—and then whoever else wants to answer—you mentioned the problem relative to financing. I think so did Mr. Taylor. What is the percentage of default rate that you have relative to the loans that you make?

Mr. BEAULAC. As a combination of the Farmers—we have two loan funds: One has been capitalized, in fact recapitalized twice, had three infusions from the Farmers Home Administration. That's in a program they have called the Industrial Development Grant Program. We have less than 5 percent—it's like 4.5 percent default rate in that particular program.

We make, understandably, higher than—riskier loans than what commercial banks would entertain, but what helps mitigate some of that risk is the fact that we also have a technical assistance program which operates in companionship with the actual lending.

Ms. MOLINARI. So you follow the loan, basically?

Mr. BEAULAC. Absolutely. In fact, we don't make a loan until folks are ready. We are getting into—it sounds like what you're doing, some peer lending activities in Kentucky—we are beginning to set up peer lending groups in conjunction with some of the community colleges in New York State, and we fully expect that the default rate in those will be significantly lower than the 4.5 percent that we have experienced with the Farmers Home loans.

Ms. MOLINARI. That's great. Is that pretty much standard procedure?

Mr. Mitchell.

Mr. MITCHELL. Yes. We have a revolving loan fund that has been in existence for quite some time, and it basically lends to start up new businesses. We have loaned out now approximately $800,000 over the last 2½ years, and the default rate—it's a little early to say what the default rate will be. But we have some slow payments on some, and that's understandable, given the economy, and we are quick to recognize that and work with the people who made the loans to make sure that they are successful.

Ms. MOLINARI. So you basically have the same program in place where you track?

Mr. MITCHELL. Yes.

Ms. MOLINARI. Is that the basic—go ahead, Monsignor.

Monsignor LINDER. We do lending to individuals through our Federal credit union, Community Development Credit Union. I think what's interesting, though, we did 165 loans last year, and I don't think any of them would have been done through financial institutions. And I think what everybody should know is that 60 of those were for educational purposes, which I find rather significant

that they have to turn to a community development credit union to foster education in their family.

Ms. MOLINARI. Sure. One last question, and I'm just really asking this borrowing on my experiences with other people who have to go through the grant process. How much of your time is taken in applying for grants? Is that extremely cumbersome?

Mr. BEAULAC. Amen.

Ms. MOLINARI. Okay. I guess I just testified for you.

[Laughter.]

Mr. BEAULAC. We couldn't have said it better ourselves.

Mr. MAXWELL. The grant process, we have two people that, on a full-time basis, basically do nothing but look for money, putting grants together, and then monitoring the grants, and then seeing to it that the quarterly and annual reports, and so forth, are done on a timely basis, so that we do not get rated down on fiscal responsibility.

Ms. MOLINARI. Mr. Chairman, am I reading your bill right to think that's one of the things that your bill helps to do is streamline the process?

Chairman MARTINEZ. Absolutely.

Ms. MOLINARI. It gives an opportunity, perhaps, to cut through some of the searches that these groups have to go through and the multitude of applications.

Chairman MARTINEZ. Absolutely. That's the reason why we create the consultant board that would be their——

Ms. MOLINARI. Becomes a clearinghouse.

Chairman MARTINEZ. [continuing] clearinghouse.

Ms. MOLINARI. Well, thank you all very much.

Thank you, Mr. Chairman.

Chairman MARTINEZ. Thank you, Ms. Molinari.

Mr. Scott.

Mr. SCOTT. Thank you, Mr. Chairman.

Could someone on the panel, or I guess a couple people on the panel, indicate what interest rate you charge on the loans?

Mr. BEAULAC. In our particular case, the Farmers Home program, the interest rates average 7 percent. The new SBA program is significantly higher, since we have to borrow it, I think it's 6.5 percent, and we have to operate off what's called the spread between 6.5 percent and what the interest rate is that we charge. So loans out of the SBA and the SBA portfolio average about 11.5 percent. It can be as high as 15 percent.

In micro lending—this is a micro lending program—the issue is not so much—oftentimes not so much the interest rate as it is the availability of the money to begin with. So you're apt to see higher interest rates in some of the micro loan programs.

But the Farmers Home program gives us money at no interest rate. We are able, then, to lend at a lower interest rate than the SBA program.

Mr. MITCHELL. We have a standard scale of 1 point below prime, with a floor of 6 percent.

Mr. TAYLOR. We are 1 to 3 percent above prime.

Monsignor LINDER. We are 4 percent to 11 percent. Education loans are 4 percent; they are subsidized, internally subsidized. We subsidize them ourselves.

Mr. Scott. For the businesses that would get loans, where else would they get capital? Do you require them to come up with their own personal funds, or do you have investors from the outside to help?

Mr. Mitchell. Typically, a person—we make, basically, loans for start-up businesses and expansion. Businesses that are expanding really don't have that much of a problem matching the loan amount with equity from their businesses. For start-up loans, typically you will find aspiring businessmen who would be willing to place second mortgages on their houses or either they will get money from family members or other people who believe in the concept to invest.

That matching requirement is there because the funds that we use are both Federal and State, so there is a matching requirement, and it does place a burden upon the potential borrower to find matching funds.

Mr. Maxwell. Congressman, you asked the question about where do many of the would-be entrepreneurs get equity from. A couple of years ago, we were awarded a grant from OCS, and with that grant we were able to create an equity pool. What we've been doing with new, minority, would-be business entrepreneurs is providing the equity for them. We've created a new concept, a commercial incubator. What's happening is, we built a new shopping center. We put in 14 minority enterprises, and in each of those enterprises we have made an equity investment so that these individuals could go into business. Most of them have been long-time managers of someone else's opportunity. We've put them in their own opportunity using that $500,000 as an equity base. With that, we provide technical assistance so that we guide them to success.

Mr. Scott. What kind of job training—some of the people who go into businesses have to hire employees, and I assume you're trying to get them from the area. What kind of job training do you provide?

Mr. Maxwell. We've hooked up with the Job Training Partnership Act program in our city. It's called the Full Employment Council. Almost every job that we have created, the participants have come through that Full Employment Council where we are able to give them tailored training to fit the particular job that they are going into, further leveraging money, because we use the partnership money to train folk before they come to the job.

Mr. Scott. Do you use targeted job tax credits and other programs like that?

Mr. Maxwell. Yes, we do. We use the tax credit program, especially as it relates to the housing components that we do.

Mr. Scott. In relation to what?

Mr. Maxwell. Especially as it relates to the housing projects that we are building.

Mr. Beaulac. In our own case, we are an employment and training organization. We have major contracts with the U.S. Department of Labor to undertake employment and training activities on behalf of farmworkers. In cases where we are an equity investor or even a lender to a business external to our operation, we have what is called a first source hiring agreement, which gives us the

ability to be in sort of the front of the line when it comes to referring people to new jobs.

We also have the luxury of having our own employment and training resources to undertake training for those specific jobs, including on-the-job training.

Mr. MITCHELL. For us, we require training, not only of the potential employees, but in a lot of cases of the people who borrow the funds. For the people who borrow the funds, they are required to go through Long Island University's Business Development Center. For a lot of the potential employees, our complex has a TAP program, tuition assistance and placement, and we formed a joint venture with this small agency, Community Associates, to provide training through a local labor union for potential employees, also.

Mr. SCOTT. On the housing programs that you sponsor, how do you make a profit on it? How do they pay for themselves?

Mr. MAXWELL. In our case, what we have generally done is made a profit from doing the housing program from the developer's fees. We serve as the developer on a project. Then we generally take back the contract for management. So, over a long period of time, we create employment for folk from our community in that management capacity, and, at the same time, we keep our finger—we have a revenue stream, and we keep our finger on the management of that operation.

Mr. SCOTT. When you say "develop," do you mean construct?

Mr. MAXWELL. We receive a development fee for putting the project together and monitoring the project as it is built.

Mr. SCOTT. You're constructing new housing. You're not buying housing.

Mr. MAXWELL. Yes, that's construction of new housing.

Chairman MARTINEZ. Would you yield on that for a moment?

Mr. SCOTT. Yes.

Chairman MARTINEZ. I think the confusion that's coming in is, in all major projects, large projects, the firm who contracted for the development will go out and hire a person to oversee the project as it is developed, make sure that everything is delivered right and everything is proceeding right towards the final project. That is a management fee, and that's the fee that he's talking about.

Mr. MAXWELL. Right. It's the development fee.

Mr. SCOTT. And it's low-income housing?

Mr. MAXWELL. Yes.

Mr. SCOTT. With the lower rents, how do they pay the mortgage?

Mr. MAXWELL. We usually end up having a combination of programs. For instance, we're doing a project right now that's called Metropolitan Housing. It's a 60-unit, low-income housing project. We were able to get a loan from the Missouri Division of Housing where we're paying 1 percent interest on $1.5 million.

Mr. SCOTT. Where did you get that money?

Mr. MAXWELL. From the Missouri Housing Commission.

Mr. SCOTT. Okay.

Mr. MAXWELL. We were able to get another loan from the city for $1 million, but there's a second mortgage, and the $1-million payback does not kick in until the first mortgage is paid off in 20 years. We were able to get a $2.5-million equity investment because of the tax credits. We were able to get a local bank to make a $1-

million loan to the project for 10 percent, and they have the first mortgage. We have to do all of these wraparounds and come up with this creative financing to make a project work. Then we're able to rent a 900-square-foot apartment for $400 a month.

Mr. SCOTT. Do you have some tax credits that get in there, low-income tax credits?

Mr. MAXWELL. Yes.

Mr. SCOTT. Do you sell those?

Mr. MAXWELL. Yes, we sell those, and that's how we obtain our limited partnership.

Mr. SCOTT. You mentioned a lot of different organizations. Do you feel that the CDCs duplicate some of the funding pools available through HUD, Economic Development Administration, or other sources?

Mr. MAXWELL. No, we do not duplicate. What we do is coordinate. It is our responsibility, as a community development corporation, to be familiar with the tools and the resources that are there and leverage them. All of our strategies are gathered at leveraging funds when and wherever we can. We end up being the conduit for bringing all of these together. And without a CDC doing that, generally you won't have anybody in low-income communities taking that role.

Mr. SCOTT. How much money did you need to start off with to get your organization off the ground?

Mr. MAXWELL. Our first grant, which was some 20 years ago, was a commitment of about $250,000 that got our organization started.

Mr. SCOTT. Let me see with the others.

Monsignor.

Monsignor LINDER. In our case, we borrowed. We borrowed from a major industry $200,000 at no interest and no time period. We did pay it back. And then we kind of stole a page out of the "Train Israel" campaign and sold square feet of land for $5.00 apiece at the time, and raised about $100,000. That was our beginning.

Mr. BEAULAC. I remember quite specifically that it was a $175,000-grant from the Office of Economic Opportunity, in 1969, under their Migrant and Seasonal Farm Worker Program.

Mr. MITCHELL. We started off with a $50,000 grant from the Ford Foundation and a $750,000 grant from the U.S. Labor Department.

Mr. TAYLOR. We started off 16 years ago, in 1976, with a $50,000 grant from a foundation.

Mr. SCOTT. Thank you, Mr. Chairman.

Chairman MARTINEZ. Thank you, Mr. Scott.

Mr. SCOTT. After I made my opening statement, Linwood DeBrew, who is from Newport News and is very active in the community development corporation, arrived. He has been in operation since the mid–1970s, and I would like him to stand and be recognized.

Thank you.

Chairman MARTINEZ. Welcome.

Just on a follow-up before I turn to Major Owens on his questions, Mr. Maxwell, that $250,000 original start-up money, what is the net asset of your company now?

Mr. MAXWELL. About $30 million.

Chairman MARTINEZ. Monsignor Linder.

Monsignor LINDER. I don't know what the net would be. Gross is $300 million.

Mr. BEAULAC. About $15 million.

Mr. MITCHELL. Consolidated, which is different accounting, consolidated I would say about $55 million.

Chairman MARTINEZ. Mr. Taylor.

Mr. TAYLOR. $4 million.

Chairman MARTINEZ. The only reason I asked the follow-up question is for people to clearly understand the little dollar, how it got multiplied.

Mr. Owens.

Mr. OWENS. Thank you, Mr. Chairman.

You have already answered several questions that I had. I want to congratulate you and I think celebrate your survival. As a former commissioner of the Community Action Program, I want to state that you represent sort of the institutionalization and concretization of the best of what was expected of the Community Action Program. And I know that you have had several, maybe 10 years of great difficulty.

Certainly, in the case of Bedford Stuyvesant Restoration, represented by Mr. Mitchell, I would like to say that it started with tremendous bipartisan support and continues to enjoy tremendous bipartisan support. I think that's part of the reason for its success and continued growth.

Particularly, I would like to note that Bill Green was a great supporter of Bedford Stuyvesant Restoration. I hope that, with Bill Green's departure, the representatives from the other side will continue that tradition with equal generosity. Bill Green was particularly needed when we had a President of the opposite party.

That leads me to my next question. It's not a partisan question, it's really, as you look at the present situation and what is being proposed by the new administration, community development banks and some other things, and maybe tougher rules on CRA, the banks, what do you see? How do you react? Have you been consulted, for example, in some of these discussions of community development banks? Do you have any particular comments about the way the present administration is proceeding?

Mr. MAXWELL. I'm not in love with the way the present administration is proceeding, because the present administration has not really addressed—has not really given any attention to the CDCs. As they talk about doing the community development banks, I think that's good, but before the banks can work you have to have some organizations out there, some institutions with capacity to put those projects together and make them work. That's what we're doing now.

We have decided amongst ourselves that we needed to have a conference, and we're having conferences with those institutions that have been doing community banking and trying to figure out how we can put together a partnership so that we can work collectively, together.

We have not felt that the administration is addressing the CDCs themselves. We've heard no mention, in any of the President's pitches, to expand on the concept of equity in a community. And what we need, in order to work, we need to have access to equity

capital, and we also need a second thing, and that's access to administrative capital so that we can accelerate the process.

We spend a great deal of our time looking for administrative capital so that we can do expansion. And we spend a great deal of time looking for equity sources.

Mr. OWENS. Any other comments?

Mr. Mitchell, we have a community development bank in Brooklyn. It is one of four bona fide community development banks, I'm told. In fact, the community development bank in Brooklyn is mentioned in the legislation that has already been passed on community development banks. Do you have a relationship with that bank at all, or do you foresee a positive relationship?

Mr. MITCHELL. When the bank was first started several years ago, the founder of the bank visited Restoration, and we shared a lot of ideas and gave some advice. We have a very good relationship. We have not availed ourselves of the credit facility, even though we are currently in the process of doing that to provide a working capital loan to Restoration and to provide start-up equity for a new property management company that we are forming.

Mr. Maxwell from Kansas said something that, to me, is extremely important in that one of the big needs within the minority community, in addition to an equitable access to the debt capital structures, is also access to equity capital.

One of the problems that we find, Congressman, through the various people who come to Restoration, is that, in many cases, they have too much debt and not enough equity, so that their cash flow position is in a very, very tenuous situation. And without a facility to assist in terms of obtaining equity capital and also just in terms of old-fashioned financial planning, to help people better manage their moneys, additional debt is not going to necessarily be the answer.

However, I do applaud the current administration's efforts towards expanding the ability of business people in minority communities to access the capital markets. It's needed. I hope, however, that in addition to the community banks that are being proposed that also equal if not more attention is also given to the fact that, in a lot of cases, the technical training that I think that Congressman Martinez is addressing in this particular legislation is absolutely an essential and necessary element to already have in place before people rush out and borrow money.

Even if that money is available to them at below-market interest rates, it's still no good if you have 100 percent of your capitalization in debt. And that's what I'm finding a lot of, in terms of the small businesses in Bedford Stuyvesant, absolutely too much debt.

Mr. OWENS. Thank you, Mr. Chairman.

Chairman MARTINEZ. Thank you, Mr. Owens.

Mr. Payne.

Mr. PAYNE. Thank you, Mr. Chairman.

As you know, I'm not a member of your committee.

Chairman MARTINEZ. No, but your connection is a very high one, from a very high place.

Mr. PAYNE. But I certainly felt it was appropriate for me to be here since we do have probably one of the most outstanding organizations in the United States with Father Linder's New Community

Corporation—Monsignor Linder. In Newark, we still refer to him as Father Linder. And I was looking to see the testimony, which is not in this particular packet, so I'm not sure exactly what Monsignor Linder mentioned. Someone stole it out of this one. It was so hot, they took it, whoever had this previous package.

But, certainly, we are very, very proud of what Monsignor Linder has done in Newark. As you know, Newark was a city that was besieged with tremendous social problems during the 1960s. After the civil disorders in Newark, the rebellion that took place in 1967, Monsignor Linder decided to stay with persons and start to rebuild our community. And I think, currently, New Community probably is the second largest employer in the city, maybe only second to the City of Newark itself.

The tremendous number of programs that they have, from housing, health care, seniors programs, infants programs, day care, battered spouses, violence reduction, all kinds of programs, whatever you can think about, the supermarket where they have fresh greens, and you can even get a little fatback with a strip of lean. You know, you can't get that up north much.

But it's a great place to campaign, too, when you just go to shop, you know, and you see everybody in the community. So I do my local shopping at the Pathmark, which was the first one to come back into the city since the 1960s. And it's probably a city with close to 300,000 people and had maybe one or two supermarkets, and they were all in the eastern part of the city. I doubt if there's a city comparable the size of Newark that has no supermarket or shopping mall.

So I'm just very pleased to be here, and anytime Monsignor Linder is testifying I attempt to get there to hear what he has to say. He is really one of the truly unsung heroes in our State and in this country.

Thank you, Mr. Chairman.

Chairman MARTINEZ. Thank you, Mr. Payne.

Of course, for the record, Mr. Payne is a member of the Education and Labor Committee that this subcommittee is a part of and, as such, will have a lot to do, if we are able to get this bill to the full committee for markup. And there will be many chances for your discussion and comments on the success of this particular program in the full committee.

Again, I want to thank the panel members for coming from the places you have come from to give us this invaluable testimony. Again, thank you for visiting with us a short time last night and sharing with us.

Again, it's good to see you, Mr. Maxwell.

Mr. MAXWELL. Good to see you, Congressman.

Chairman MARTINEZ. Our next panel consists of two people: Ms. Valerie Shaw of the Crenshaw Neighborhood Development Corporation in Los Angeles, California; and Mr. Marcelo M. Elissetche, who is from the Latino Economic Development Corporation, Washington, DC.

We will begin with Ms. Shaw.

STATEMENTS OF VALERIE SHAW, CRENSHAW NEIGHBORHOOD DEVELOPMENT CORPORATION, LOS ANGELES, CALIFORNIA; AND MARCELO M. ELISSETCHE, LATINO ECONOMIC DEVELOPMENT CORPORATION, WASHINGTON, DC

Ms. SHAW. Good morning, Mr. Chairman and committee members.

I am going to give you a bit of a view of Los Angeles here this morning. I particularly want to thank my Congressman, Julian Dixon, for being here this morning. It was really a treat for me.

My name is Valerie Lynne Shaw, and I am a board member with the Crenshaw Neighborhood Development Corporation in Los Angeles, California. CNDC is the name of the organization. It is a new organization that is commonly referred to as an emerging CDC. CNDC was informally organized 18 months ago, and in late 1992 we formally filed for 501(c)(3) status.

The corporation was initiated by community residents, business persons, local CBOs, civic groups, and the office of Councilwoman Ruth Galanter. Originally, it was created to become a vehicle for community participation and ownership in a 20-acre redevelopment site in the Crenshaw district of Los Angeles. Our major focus will be commercial development.

Let me take a few minutes to actually describe Crenshaw, because our target community for the development corporation is unique.

The Crenshaw area really is the last bastion of the black community in Los Angeles. The media leads the world to believe that South Central LA is the black community, but that is simply not true, not any longer. South Central LA is predominantly Latino now. So when we move towards the next century and someone refers to Los Angeles' black community, they are really referring to Crenshaw, which is located in the district of Congressman Julian Dixon.

Crenshaw has a population of nearly 100,000 residents who live in 14 distinct neighborhoods. The ethnic breakdown is 76 percent African-American, 15 percent Latino, 5 percent Anglo, and 4 percent Asian. The median income is $26,000; 45 percent of the homes are owner-occupied; and nearly 20 percent of the population—I would really say 25 percent of the population is below the poverty line. Contrastively, interestingly, over 70 percent of the housing stock is classified as good or excellent. A significant portion of the population is middle to upper middle class. As the last bastion of the black community, Crenshaw is home to Mayor Tom Bradley, he is moving back there after leaving Hancock Park; Police Commissioner Jessie Brewer; the notorious gang, the Rolling Sixties; a host of television and movie personalities; thousands of welfare recipients; hundreds of homeless; and, of course, tens of thousands of regular, ordinary, working people like myself.

It's a city within a city that has experienced tremendous economic decline, particularly in the commercial areas. Disinvestment has been occurring ever since 1965 and has resulted in the negative economic conditions that are apparent in all of our inner cities in the Nation.

Four years ago, the Crenshaw community became outraged because an outside developer was given sort of a sweetheart deal to refurbish a regional mall in the middle of the community, and local residents were not given the opportunity to invest in this $40-million project. This situation sparked a tremendous mood against outsiders coming in and owning real estate without the possibility of local ownership.

So, as a result, the Crenshaw Neighborhood Development Corporation was eventually established to address the community's concern for commercial development and local ownership.

Now, in the last year, the question of ownership and social and economic justice has dominated the consciousness of Los Angeles. It has been a troubling 12 months, a time in which the systems of the city had to both recognize and acknowledge that a vast portion of the citizens were disconnected from society. The city had to come to grips with the schism between the community and the police, the tension between various ethnic groups, the fear of ordinary citizens, and the impact that poverty has on the fabric of the city.

A year ago this week the world became painfully aware of what poverty and disenfranchisement can create. Los Angeles, the world class city, the city of the future, the multicultural model, erupted. And when the authorities regained control, the city clearly could no longer deny or ignore the power of the poor and disenfranchised.

I remember a scene—because, again, I work for a councilwoman there, and I work in the Crenshaw district. I was told to leave my office because some of the government offices were targeted. And I went to my mother's house, which I thought would be out of the area, but it ended up, ultimately, it wasn't. And my brother called me and he said, "Did you get everything out of your office?" And I said, "Yes, I got everything." He said, "Did you get your art work off the walls?" I said, "No, I have to get my Charles White print off the wall." He's a famous black artist.

So I drove back down Crenshaw Boulevard, and I saw something that you didn't see on TV. It was around 6 o'clock, and I saw ordinary citizens, who had gotten off of work, dressed in suits and nice dresses, they were standing on the corners with handwritten signs on placards and pieces of cardboard that said, "There is no justice."

So it's more than just the poor who felt disconnected. The community felt disconnected, and they felt it to the point where they had to leave their jobs, go home and write a little sign, and go out on the corner and scream. It was a scene that I will never forget.

Insightful citizens refer to the event as the LA rebellion. The rebellion made it clear to all residents of LA, from Malibu to East LA, that the have-nots and the disconnected will not remain quiet and invisible anymore. The Los Angeles rebellion was clear that there are thousands of disconnected people in the inner city, people who have no stake in society, no reason to care, no opportunity to participate. They are angry, they can be destructive, and they simply aren't going to take it anymore.

Mr. Chairman, 12 years ago, when I was a young woman, I used to work here in Washington, DC, for the Conference of Mayors. And I remember, I had just come out of graduate school—and I see there are a lot of young people here in this building today—and I

had a boss named Dick Eckfield. I don't know if he's still here or if any of you have ever heard of him.

But he told me, he said, "Valerie, it's a bad time to go into government service." He talked about scarcity of resources. He talked about the tragic choices that were going to have to be made. And it seems that he could see what would happen 12 years later, in terms of, I guess, citizens feeling disenfranchised and going into uprising or rebellion.

When he told me this, I said, "The bottom line is that we know now, in the early 1980s, that we have to do something as we go towards the future. Because, if we don't find mechanisms to bring these people in, these people will end up killing us." That is simply the bottom line. We have to find ways of connecting.

If we are a society that intends to have a future, then we must find and support ways to connect the disenfranchised. Today, CDCs appear to be the most effective way of connecting people. Mechanisms that create ownership, jobs, businesses, and empower people have to be nurtured and encouraged.

In Los Angeles, local CDCs have formed an organization called the Coalition of Neighborhood Developers. We have the highest percentage, in fact, of new CDCs that are less than 5 years old. This 40-member multicultural coalition is committed to community development and citizen empowerment. The community clearly respects the commitment of the individual members of this coalition, because during the rebellion not one CDC project was burned or looted.

Emerging CDCs are special, and we need solid, well-thought-out assistance. H.R. 818 is outstanding in that it addresses our basic needs, and that, of course, is administrative operating funds. A major barrier to establishing CDCs is availability of operating funds and the dearth of qualified technical staff, particularly people who are willing to commit to the long haul.

H.R. 818 will provide $75,000 for up to 3 years to cover predevelopment costs and launching economic development programs. Start-up money is hard to secure, and, obviously, if you don't have it, nothing else will happen. Every emerging CDC will welcome this kind of capacity building.

In addition to operating funds, emerging CDCs need hands-on technical assistance, growth management, venture capital funds, the support of a network of peers, and the willingness of the older CDCs—and we saw the older CDCs here earlier this morning—to mentor the new ones. We need support from commercial lending sources. In Los Angeles, only one financial institution, that was Bank of America, assisted CDCs.

Mr. Scott. It was Bank of America?

Ms. Shaw. Yes, it was Bank of America. That's the only one so far. I must mention, though, that a CDC bank is forming and that the Disney Corporation gave a $1-million grant to a church-based CDC for a micro loan program.

Now, right now, CNDC is in search of operating funds and a good staff person. To date, we have been operating with a volunteer staff and also a volunteer board of 14 members. CNDC projects and progress include the development of a micro loan program, the coordination of a lenders fair, the creation of a community invest-

ment vehicle to ensure local ownership in various real estate projects, participation in the creation of a Los Angeles African-American agenda, and the development of a small grocery store.

CNDC, in conjunction with other local CDCs, is managing a Local Initiative Support System, LISC, funded effort to complete a citizen-created Crenshaw Neighborhood Specific Land Use Plan. And this is unique, because it's a plan that is created by the citizens. In August, the plan will be completed, and the citizens will go through a training program, a leadership training program, so that they might implement the plan. It is a fact that CDCs represent a connecting force that makes them unique and essential to the growth and survival of the inner cities.

A couple of weeks ago, I was watching a television program that highlighted the 25th anniversary of the assassination of Martin Luther King. In the retrospective of King's life, they showed a rally, and I saw an old black man carrying a placard that simply said, "We must lift as we climb." If this Nation is interested in a future, we must lift as we climb. We must recognize the value of this poignant adage. We must create, foster, and nurture CDCs and all other such efforts that work to connect people to society.

I commend you for your support of emerging CDCs, and I challenge you to find new and innovative ways of making people feel that they are part of America.

Thank you.

[The prepared statement of Valerie Shaw follows:]

STATEMENT OF VALERIE LYNNE SHAW, BOARD MEMBER, CRENSHAW NEIGHBORHOOD DEVELOPMENT CORPORATION

Good morning, Mr. Chairman and committee members. My name is Valerie Lynne Shaw and I am a board member with the Crenshaw Neighborhood Development Corporation [CNDC], located in Los Angeles, California. CNDC is the new organization, commonly referred to as an "emerging CDC." CNDC was informally organized 18 months ago. In late 1992, we formally filed for 501(c)(3) status. The corporation was initiated by community residents, business persons, local CBOs, civic groups, and the office of Councilwoman Ruth Galanter. Originally, it was created to become a vehicle for community participation and ownership in a proposed 20-acre redevelopment site in the Crenshaw district. CNDC's major focus will be commercial development.

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As the last bastion of the black community, Crenshaw is home to Mayor Tom Bradley, Police Commissioner Jessie Brewer, the notorious gang— Rollin Sixties, a host of black television and movie personalities, thousands of welfare recipients, hundreds of homeless, and of course, tens of thousands of ordinary working folks. It is a city within a city, that has experienced serious economic decline particularly in the commercial areas. Disinvestment has been occurring ever since 1965 and has resulted in negative economic conditions that are apparent in all of our inner cities across the Nation.

Four years ago the Crenshaw community became outraged because an outside developer was given a "sweetheart deal" to refurbish a regional mall in the middle of the community. Local residents were not given the opportunity to own or invest in the $40-million project. This situation sparked a tremendous mood against outsiders coming in and owning real estate without the possibility of local ownership. As a result, the Crenshaw Neighborhood Development Corporation was eventually established to address the community's concern for commercial revitalization and local ownership.

In the last year, the question of ownership and social and economic justice has dominated the consciousness of Los Angeles. It has been a troubling 12 months, a time in which "the systems" of the city had to both recognize and acknowledge that a vast percentage of its citizens were "disconnected" from society. The city had to come to grips with the schism between segments of the community and the police, the tension between various ethnic groups, the fear of ordinary citizens and the impact that poverty has on the fabric of the city.

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If we as a society intend on having a future, then we must find and support ways to "reconnect" the disenfranchised. Today, CDCs appear to be the most effective way of "connecting people." Mechanisms that create ownership, jobs, businesses, and empower people have to be nurtured and encouraged. In Los Angeles, local CDCs have formed an organization called the Coalition of Neighborhood Developers. This 40-member multicultural coalition is committed to community development, and citizen empowerment. The community clearly respects the commitment of the individual members of this coalition because during the rebellion not one CDC project was looted or burned.

Emerging CDCs are special, and we need solid, well-thought-out assistance. H.R. 818 is outstanding in that it addresses our basic needs, and that of course is administrative/operating funds. A major barrier to establishing CDCs is availability of operating funds and the dearth of qualified technical staff, particularly people who are willing to commit to the long haul. Many technically sound young people are graduating from local universities but they find it difficult to remain on the community level becasue the pay is so low. H.R. 818 will provide $75,000 for up to 3 years to cover predevelopment costs in launching economic development programs. Start-up money is hard to secure, and obviously, if you don't have it, nothing will ever happen. Every emerging CDC will welcome this kind of capacity building assistance.

In addition to operating funds, emerging CDCs need hands-on technical assistance, growth management training, venture capital funds, the support of a network of peers, and the willingness of the older CDCs to "mentor" new ones. We need support from commercial lending sources. In Los Angeles, only one financial institution [Bank of America], has assisted CDCs. However, I must mention that a new CDC bank is forming and the Disney corporation gave a $1 million grant to a church-based CDC for a micro loan program.

Right now, Crenshaw Neighborhood Development Corporation is in search of operating funds and a good staff person. To date, we have been operating with 14 active board members and a volunteer consultant. CNDC projects in progress include: the development of a micro loan program and the coordination of a lenders fair; the creation of a community investment vehicle to ensure local ownership in various real estate development projects; participation in the creation of a Los Angeles African-American agenda and the development of a small grocery store.

CNDC in conjunction with other local CDCs is managing a Local Initiative Support System [LISC] funded effort to complete a citizen-created Crenshaw Neighborhood Specific Land Use Plan. In August after the plan is completed, CNDC will sponsor a citizen leadership training program that will assist citizens in the implementation phase of the neighborhood plan. The role of CNDC in facilitating the creation of the Crenshaw Neighborhood Plan again highlights the ability of CDCs to "connect" people to their community. It is the fact that CDCs represent a "connect-

ing" force that makes them unique and essential to the growth and survival of the inner cities.

A couple of weeks ago I was watching a television program that highlighted the 25th anniversary of the assassination of Martin Luther King. In the retrospective of King's life they showed a rally and I saw an old black man carrying a placard that simply said "we must lift as we climb." If this Nation is interested in a future, WE must LIFT as we CLIMB. We must recognize the value of this poignant adage. We must create, foster, and nurture CDCs and all other such efforts, that work to "connect" people to society.

I commend you for your support of emerging CDCs and I challenge you to find new and innovative ways of making people feel that they are a part of America. Thank you for the opportunity to be here today.

Chairman MARTINEZ. Thank you. I was intrigued by your former boss who told you 12 years ago that it was a bad time to be coming into government, because I wonder what he would tell you now.

Ms. SHAW. It's a worse time.

Chairman MARTINEZ. It's the worst time. We had a lot of members who finally threw up their hands in frustration before the last election and said, "Hey, that's it, I'm through," you know. It seems no matter what you do or what you try to do—and a lot of that had to do with different priorities for the country.

In the last 12 years, the highest priority has been defense and national interest with not much regard to what was happening internally. And I don't think you can be a really strong country unless you're strong internally. That goes without saying.

But, you know, one of the frustrations that you talk about in the neighborhoods, when you say these people were standing on the corners with signs, "There is no justice," and you say they were people who had come home from work in suits, dressed up.

Ms. SHAW. Absolutely.

Chairman MARTINEZ. But they weren't rioting. They were standing on the corners with the signs.

Ms. SHAW. Correct.

Chairman MARTINEZ. That's the difference. If you look at the pictures, you say this was something that the cameras didn't see. The cameras saw, but the cameras didn't report. The cameras saw, I should say, but the reporters didn't report. Because if you look at the cameras and look at the pictures of the people looting, there are very few black people in that. Look at the pictures, take a look at them as they show them over and over again. I watched, and it was interesting to me.

One of the things you said, that particular community of South Central Los Angeles—I wonder when it lost its title "Watts," because at one time that whole area was considered Watts. To add to your history of the area, prior to World War II, that area was basically Hispanic, almost all Hispanic. There were very few blacks there.

After World War II and the opportunities that were opening in California, and the people from the South, wanting to get out from under a lot of the oppression that was there, started moving to California, a wonderful State, a lot of job opportunities, and better treatment—not much better treatment, but better treatment—and they started moving there, and South Central Los Angeles became almost all black.

Now you see the advent of the new immigration that is moving into the area, and Crenshaw, the area that is predominantly black

now, even as late as the middle 1950s, was still predominantly white in that area. I used to drive through there every day going to Inglewood to work, and it was predominantly white. Now it has changed, the community has changed.

One thing we don't do in our planning, at any level of government, is take into consideration the shifts of populations and the trends that take place as those populations shift. That's one of the reasons why, in the last 12 years, it has been very difficult.

But back to the people who say there is no justice. Well, I can understand that frustration. Anybody who comes from a minority background can. Because the first thing you do when you go to school is—what do they teach you to do? Say the pledge of allegiance, which ends "and justice for all." But as you grow, you see no justice. You see great inequities. You see great prejudice and discriminations taking place in a country with a Constitution that says "All men are created equal," all men and women are created equal, and you can't understand that.

Everything you do—when you go in the service and you take an oath to defend this country, and every day in the service you stand at attention in the morning and raise the flag and say the pledge of allegiance to the flag, "and justice for all," and yet you don't see any justice coming.

Well, I shouldn't say that completely, because it is changing. We are becoming a more enlightened Nation. As people get better educated, they are beginning to understand that differences aren't really differences. In a lot of cases, they are similarities, and we just have to recognize that.

So I understand that. And it was tragic what happened there, but it happened because of the great frustrations that we have to recognize. This bill is designed to start to alleviate some of those frustrations. Because, you know, we have heard, and I have heard since I've been here in Congress, the word "empowerment," and I see things that are happening here that are not really empowering the people. I see people giving fancy titles to things; Jack Kemp, in trying to dump all the bad housing that was administered by the housing authorities in local areas.

And look what a CDC has done in the same time that the housing authorities allowed housing to deteriorate and become less than livable, and the moneys that have been poured in to restore these have gone into people's pockets rather than restoring the properties, and the people still continue to live in unhealthy, unsafe conditions.

Now, CDCs, at the same time, have created in one area something like 800 housing units, in another area 2,500 housing units, all of high caliber, but low-cost housing for individuals. Why at the same time was HUD going the other way? And then Kemp comes up with this beautiful story about creating hope in communities by giving them this dilapidated, terrible, run-down housing.

And why? Not to give anything to anybody, but to eliminate a big problem for HUD. That was the real reason. Get rid of this junk. Dump it on somebody who they think is too dumb to know any better. I've got news for them, they are not too dumb to know better. Those people, if they offered them that housing, they wouldn't take it, because it's not adequate housing.

I'm sorry. Your testimony stirred a lot of feelings in me.

Ms. Shaw. Well, that's good.

Chairman Martinez. You know, when you sit here and try to get something done, and you talk to your colleagues and you talk till you're blue in the face about the good of a project, and the evidence is all there to see, if they would only open their eyes and look around, but they have very narrow agendas, and they are not busy looking anywhere else except their own narrow little agenda, and you can't get things done. But you see that it's there. All we have to do is do it.

So that's some of the frustration we feel. I'm not prone to rioting now at my age, when I was younger I might have been. But, you know, I think your testimony was very good in that regard.

Ms. Shaw. Mr. Chairman, I do want to say this though, one of the positive things that came out of the LA rebellion is that—and, again, I want to emphasize the whole notion of connecting, that CDCs do connect people to their communities—in a way, the rebellion connected all of LA, which is vastly diverse, but it connected the various communities.

And the connection force might have been fear. So people who live on the west side were fearful of people who lived on the east side or the south side. But one thing that the rebellion did do is, it got the people on the west side to start thinking, "Well, what's wrong over here? What's happening over here? Maybe we need to pay attention to these people, because, you know, maybe they might end up—" I don't want to say the wrong thing—but "Maybe they will challenge us in the future, if we don't try to figure out what their problems are."

One of the things that a police official told me years ago, he said, "Valerie, nothing really is going to happen until social problems get into the white community in LA."

Chairman Martinez. And they are beginning to get there.

Ms. Shaw. They are there. LA proved it. The whole response to the so-called "riot that never happened" 2 weeks ago was a result of the fear of the Anglo community. And I think that the opportunity there is that it's giving us an opportunity to go to the Anglo community, or to the powers that be, and to educate them on what the needs are in communities that are populated by people of color. Because as goes Los Angeles and California, so goes the Nation.

Chairman Martinez. Absolutely.

Mr. Elissetche.

Mr. Elissetche. Thank you, Mr. Chairman.

I am just going to be very brief, since, on the one hand, we are the newest CDC at the table. Next month will be 1 year of funding and 2 years of establishment. And it's a sad comment that most of these efforts are born out of disturbances and riots and rebellions. We were born like that, as a result of the Mt. Pleasant riots in May 1991, May 5.

This Cinco de Mayo was a little bit different here, because this area that we are talking about in the District of Columbia receives a large majority of new immigrants, not only from Latino origin, but also from Asian, we have a large refugee settlement program from Vietnam, Ethiopians, and people from Eritrea, other Africans

like Nigerians, Zairians. So we have a quite—about 80 languages in those neighborhoods and close to 120 nationalities.

That creates a microcosm in schools, police relations, race relations. Now, that somehow got an expression 2 years ago. Additionally, the District of Columbia is not a State; it's a city-state, meaning that its particular relations with the Congress and with the Federal Government creates a very nebulous relationship in how constituencies and citizens are represented.

This CDC was trying to encompass all these issues. We got funded a year ago from the Office of Business and Economic Development of the District of Columbia, with CDBG funds, to the level of $174,000. That program was directed to four main projects. The first one was to create a depository institution for a community development credit union. The second one is to create support for self-employment. Therefore, we suggested the creation of a macro enterprise, a revolving loan fund.

Third, the issue of the lack of health insurance, so we created some partnerships in trying to create low-cost health insurance. And, finally, we have been trying very hard to get the support of banks in order to expand the capability of job creation.

In a way, we are very lucky. Because we come at the end of almost 25 years of experience with CDCs, people more or less recognize what they are, and there is an understanding of how to do it. So we benefit immediately from the experience of the other CDCs locally, in the District of Columbia. There are about 10.

But, as a new CDC, I can testify to the fact that H.R. 818 is a very important piece of legislation for three reasons. The first one is because of the need to create a clearinghouse, a mechanism by which the previous knowledge of previous CDCs is transferred, particularly the dos and don'ts.

Second, because it's a way to get talent to work in inner cities, in poverty areas. That does not mean that the requirement of efficiency, productivity, and capability in packaging of projects is less than to work in the private sector. Quite the contrary. You are required to excel more, in terms of being very efficient, in order to be able to be productive and to be able to repay the proceeds of your lending.

And the third element is that the larger CDCs have created a way, a mode and a philosophy of working that needs to be shared. Had it not been for CDBG funding, this CDC would have never existed, not only the other 10 of the District of Columbia. And most of them work in African-American areas, east of the river and areas where really poverty is very obvious.

As you know, we live in a very violent city, so the question of drugs and crime touches also directly every day. Not so long ago, Congressman, you could have remembered, every time there is a shotgun stalker moving in the neighborhood, we cannot say that the small businesses that year might survive the summer. So these are not stories. These are real, live situations in which CDCs can energize, sometimes, the process.

But the need for talent is real, as well as the need for equity resources to produce the kinds of projects that can create jobs.

As I said, we were very lucky, because we used CRA very well, too, because we learned from other CDCs. In one year, we have ob-

tained the support of three larger banks for capitalization of the revolving fund, for deposits and reserves for the credit union, and for commercial projects to create business incubators. Now, these banks are sensitized because there is a long history behind us but also because they see that CDCs are a real and practical way of dealing with technical issues.

Now, we have a staff of four people. One of them is dedicated full time only for reporting, all the grant procedures and the regulations and the bureaucratic mechanisms that need to be put in order to report back. So, actually, we only have three people working on projects. So it is an indictment also that, yes, the money is there, but the bureaucracy too. There is no way to run a process in order to overcharge the needs with more bureaucratic red tape.

I have departed from my statement, because I think that what I expect the committee to know is in which way we can help the new ones, the new CDCs. And I think that, from that point of view, I have been trying to express the three most important aspects, and the National Congress of Community Development has been trying to pinpoint the same issues. There needs to be a way to transfer the knowledge and experience throughout. At the same time, there should be financial support in order to make it possible.

Thank you.

[The prepared statement of Marcelo Elissetche follows:]

Marcelo Elissetche
Executive Director
The Latino Economic Development Corporation, Inc.

Thank you, Mr. Martinez, for holding these hearings on the important subject of Community Development Corporations and their role in low income communities. I am pleased to be able to give testimony concerning the effects and benefits to CDCs that would arise out of the passage of H.R. 818, the Community Services Empowerment Amendments of 1993. I would like to address the ways in which the passage of H.R. 818 would help community organizations to serve low income residents of communities across the country.

The Latino Economic Development Corporation is a CDC founded in September 1991 with the purpose of serving the neighborhoods of Mount Pleasant, Columbia Heights, and Adams Morgan in Washington D.C. In its first eleven months of funded activity, LEDC has been developing four inter-related economic development initiatives, as well as a general revitalization effort aimed at job development and business assistance. The first of these initiatives is a community development credit union which is intended to address the flight of capital and the lack of community controlled financial institutions. As a cooperatively run institution, the credit union can determine its own lending and investment criteria within the bounds of Federal regulations. The second initiative is targeted toward self-employed individuals and micro enterprises. The Microenterprise Loan Fund will provide loans in amounts from a few hundred to 20,000 dollars, which will be contingent upon completion of a training program. The MLF will also provide referrals and training as necessary to clients who need larger loans. The third initiative is the establishment of a low cost health insurance plan for families. Titled "Basicare", this initiative would provide $5,000 or $10,000 in hospitalization costs, up to $500 in emergency treatment, and $500 in prescription drug coverage for a family of four for $35 per month. The fourth initiative, housing, has commenced with a planning process for LEDC's housing development strategy.

The impetus for LEDC's current economic development projects comes from the findings of the D.C. Latino Civil Rights Task Force as contained in "The Latino Blueprint for Action". The Blueprint was published in October of 1991, and it examined in detail the issues facing the Latino community. In response to these issues, the Task Force made a series of recommendations, including the founding of a CDC to facilitate the economic development of the community. The economic issues that the Blueprint outlined concerned the flight of capital from the community as well as the lack of community controlled financial institutions. The Blueprint also indicated the need for affordable health care and housing for low income residents. It is from the Blueprint, and the Task Force itself, that LEDC took its initial direction.

It is my belief that CDCs have been underestimated with respect to their role as a promoter of economic development in the general formal economy. Many capable CDCs have long histories of community revitalization work that have contributed greatly to the economic well being of neighborhoods across the country. In some communities, CDCs take on a variety of roles, real estate developer, community lender, institution builder, and locus of community action on a political level.

CDCs often serve as the only development entity in a neighborhood, the only developer that

can act with purely the community interest in mind. There are projects that only CDCs can do for a number of reasons, among the most important being the fact that they can operate without the profit constraints of commercial developers, with access to resources that are not available to commercial developers. These resources include variety of lending sources, both public and private, that are targeted toward non-profits. Equally important, in order to be successful, CDCs must have relationships with other actors in the community that commercial developers often do not have. These relationships are often the key element in a successful community development project.

As for a comparison between CDCs and other community service providers, there is no clear sense that I have that one type of organization is any better suited to a particular type of work. I think that CDCs could be just as suitable a vehicle for social service delivery as any other organization. The determining factors should simply be community needs and the expertise of the organization to deliver such services. The comparison actually should be made between the technical and managerial capabilities that the staff would bring to make the difference between success and failure.

Regarding the relationship between CDCs and the Community Development Block Grant Program, I believe that CDBG funds are a tool that CDCs are going to continue to need in the years to come. In the District of Columbia, CDBG funds provide administrative and operating support to CDCs and also provide the capital for lending programs that help CDCs create job producing enterprises, build affordable housing, and carry out commercial development projects that otherwise would not be produced by the private sector. Although the HOME program is going to be another source of funds for CDCs to draw on for projects, CDBG remains the only proven viable public source of operating funds for CDCs nationwide.

In the District of Columbia, the reliance of CDCs on CDBG funds is a hotly contested issue. It is my opinion that CDCs and other non-profit organizations need to become more self sufficient as regards their sources of operating support. It is a often heard sentiment that CDCs need to become more "businesslike" with regard to their operations; "non-profit" does not mean that an organization should not be self sufficient and product oriented. This statement, however, belies the complexity and variety of CDC operations. CDCs that do development are forced to make decisions as to whether they should to pass on development fees to the low income end users that they are trying to serve. Many CDCs operate programs that simply can not produce income except in the form of grants or contracts for support. This may or may not change, but it is an issue to be dealt with squarely.

In short, while it may be unrealistic to think that CDCs can operate entirely without subsidy of some kind, it can be expected that CDCs will move to diversify their base of support to include development fees, public and private grants, as well as income from contracts and other income producing activities that fall closer to the traditional for-profit sector of the economy.

This year has been a good one for the District of Columbia as far as the interest of commercial banks in community development and social investment are concerned. I think that in most areas there are some lenders that have made an effort to work with non-profits in their development endeavors. I believe that all the tools available to communities must be brought to bear on banks. These tools include CRA, collective negotiations, and three way dialog between local government, non-profits,and banks to shape operating agreements that speed the development process and enable the leveraging of resources. In part, these developments have been the result of CDCs and other non-profits working through the D.C. Reinvestment Alliance and the active role of the Director of the Office of Banking and Financial Institutions in supporting these efforts.

A clear example of this change was the contribution being made since 1992 by the First National Bank of Maryland, D.C. to the LEDC for the launching of a Microenterprise Loan Fund. The D.C. Government, the Economic Development Committee of the City Council, and this bank agreed to combine their support to deal with the problems of access to credit for self-employed, low income people. Furthermore, Washington D.C. has recently seen the arrival of two major quasi-national banks, NationsBank and First Union Corporation, both of North Carolina. Both of these banks have exhibited admirable interest in working with the community on supporting community banking, affordable housing, and other CDC activities. NationsBank, in fact, has decided to open one of its two new branches in the District in the Mount Pleasant neighborhood, which is served by the LEDC, while First Union has made a financial commitment to support a community credit union. These developments have made us very optimistic about out prospects in the District of Columbia.

On the national level, there have been some significant developments that bode well for the ability of CDCs to increase access to commercial banks, and secondary mortgage markets. Examples of this include NationsBank's recent announcement that they would contribute 100 million dollars to a fund that invests in Low Income Housing Tax Credit deals, as well as Fannie Mae's recently announced program for first-time homebuyers I only hope that the present Administration fulfills its pledges to quickly organize its community banking policies.

With respect to leveraging Federal funds, the LEDC has been very successful to date. The extent of our allowance on CDBG funds has been limited to operating support, and hopefully even this will diminish in the near future. With respect to leveraging generally, it seems to be the case that it is impossible to operate a CDC without leveraging significant private capital, simply due to limited public funds. Any real estate development project built these days has to have funds from a wide variety of different sources. In fact, few private developers who work on this scale have ever had to assemble financing packages of the complexity of those assembled by non-profit developers. I think that this is a great credit to the prowess of non-profit developers, and I hope that this may dispel the misunderstanding of the role of CDCs in the formal economy.

LEDC has built very good relationships with area banks, social investors, and national intermediaries such as LISC. These relationships are crucial to the success of CDCs, and the

quality and continuity of these relationships is the key to efficiency in leveraging government money. Local governments and Federal agencies that administer these funds are in fact behind the curve when it comes to participating fully in the non-profit development process. The use of Federal dollars could be much more efficient if the agencies that administer these funds would act more like private entities and communicate more actively with CDCs and other lenders.

For example, often local governments layer their own underwriting criteria over those of commercial lenders. It is obvious that the banks are far better at underwriting than the average local agency, so why not have the agency defer to the lender in this instance. There are obviously compliance responsibilities that local governments have, and that is their proper domain. Local governments should get out of the way on most other matters, however.

The role of CDCs in lending and investment is one that I have given a lot of time to, both personally and organizationally. The LEDC is currently making the recently popular concept of community lending a reality in our neighborhoods. After the civil disturbances of May 1991, the community came together to address the problems our neighborhoods. This process resulted in the formation of the LEDC itself. One problem that was identified was the lack of capital accumulation in the community. This lead to the development of two initiatives: a community credit union and a microenterprise loan fund.

The LEDC has worked for the past year to organize a community development credit union to serve the residents of our service area. The proposed Alianza Federal Community Development Credit Union will be a community controlled institution providing financial services, counseling, and consumer loans to our community. This institution will hopefully serve as a cornerstone for a movement toward reinvestment in our community. The mechanism for forming a credit union is an established one, and it is a time consuming process. However, there are signs that the National Credit Union Administration is looking for ways to make it easier to charter community development credit unions and for these institutions to receive deposits from large institutions at fixed interest rates.

On the other hand, the LEDC is also in the process of setting up a microenterprise lending and business training program. Targeted at micro- and small enterprises, we are hoping to support a type of self employment that is prevalent in our community, resulting in increased family incomes, capital accumulation, and the stabilization of the neighborhood. This program will also promote job growth in the community.

Through these initiatives we hope to make the community banking concept a reality. A word of caution, however: A community bank does not spring up out of thin air, and a true community bank may not exist in Washington D.C. for many years in the future. This is a process that takes a lot of time and effort, and we ask for your patience and close attention to the issues facing community banks over the coming years. Our process for developing the institutions that we are working on has not been significantly impacted by Federal banking

policy, but some suggestions to make this type of initiative more viable might be:

- Creating incentives for banks to fund community lending institutions
- Creating incentives for banks to provide technical assistance to community groups
- Relaxing regulatory restrictions on loans for affordable housing and community development
- Create incentives for banks to participate in innovative consortia of institutions to fund community development activities

In closing, I will say that the proposed Act will greatly benefit community organizations that have or want to institute lending programs. Micro- and small businesses have a far greater capacity to provide jobs and stabilize low income communities than do large corporations, who have ended their tenure as the job producers of the national economy. Self employment and small business contribute in innumerable ways to economic empowerment, job growth, the stabilization of communities, and improved economic prospects for all.

I am pleased to see that there is money specifically for capacity building in community organizations. If we are to be held to the efficiency standards of the private sector, we need to increase access to training opportunities as well. The best non-profit organizations boast capabilities and records of achievement that are second to none. If non-profits are to continue to leverage four private dollars for each public dollar, the expansion of their capabilities must be supported.

I may suggest that the monies be administered by an existing agency, such as the Office of Community Services at the Department of Health and Human Services, or at least an existing national non-profit entity that has experience in this area. This approach works well in the District of Columbia, where many programs have been run more efficiently by local non-profits on a contract basis than by local government. The basic point is that it may be counter-productive to create a new organization around this program.

In any event. I hope that the proposed National Community Services Empowerment Partnership Corporation will work in close coordination with any agency that is involved with community development policy, and actively seek out input from acknowledged experts in this field. as there exists a wealth of experience in this area. These experts include the National Association of Community Development Loan Funds, the Association for Enterprise Opportunity. the National Federation of Community Development Credit Unions, the National Congress for Community Economic Development. as well as the established community banks that we have heard so much about.

Thank you again, Mr. Chairman and distinguished members, for the opportunity to present this testimony on H.R. 818.

Chairman MARTINEZ. Thank you.

One of the things that we talked about before—and I'm glad you did deviate. Your written statement will be in the record in its entirety. But I'm glad you did deviate, because, as I asked you last night, what are the things you need most, and you outlined those three things. It makes us start to thinking or reaffirming that our thinking that went into preparing this legislation wasn't that far off the mark.

The fact is that we have always felt that there was ability for—larger CDCs, more experienced CDCs, such as those that were spoken about here today, have an ability to transfer their knowledge and their technical assistance and guidance to those emerging CDCs and bring them up to speed quicker. But the other thing that needs to come behind that is the resources you talk about. We need to have those resources available.

The most important part of this new legislation is the advisory board which becomes the consultant for all of the emerging CDCs and the CDCs themselves, and more or less a clearinghouse, as you have described in your testimony.

I, for one, have seen, from both the city council level, where I was first elected, to the State level, and then into Congress, the success of that CDC that operates in the general area where I've done most of my representation. And I've seen the successes in interacting with the city there. In fact, the city was a beneficiary, the city government itself, in Monterey Park, was a beneficiary of a co-venture with the TELACU CDC there in East LA.

So I think that we have to somehow bring this together. A lot of the CDCs have been doing these things on their own and moving into these problem areas that we have been wrestling with here in DC. They have already been doing it. What we need to do is be able to provide a vehicle by which they can be replicated throughout the Nation.

Mr. Scott.

Mr. SCOTT. I have a couple of questions, Mr. Chairman.

Ms. Shaw, what barriers did you have to overcome to get off the ground, and what barriers would you like us to remove?

Ms. SHAW. One of the major barriers is something that even the first panel mentioned, is the difficulty in acquiring administrative start-up funds. I mean, it's a Catch 22. You can't get any money unless you have a project, but you can't get any project unless you hire somebody to write the proposal to get the project. So that's something that we're finding out.

Also, we need capacity building in terms of training community people, people who want to stay in the community, in the area of economic development. So I would say start-up funds and also capacity building funds and training.

Mr. SCOTT. We're running late, and I'm just trying to figure out the next question I'm going to ask.

I'm sorry. I can't pronounce your name.

Mr. ELISSETCHE. Don't worry about. First name is okay. Marcelo is easier.

Chairman MARTINEZ. And I'm Hispanic.

Mr. SCOTT. Has your health insurance policy gone into effect?

Mr. ELISSETCHE. No, it will go into effect by October. We are working with the actuaries. We have reached the final numbers. We're talking about $35 per month per individual, $75 to $80 per month per family.

Mr. SCOTT. And that would not pay for routine doctor visits?

Mr. ELISSETCHE. What happens is, it's like a bank account, like a checking account. The person would have a certain limit, up to $5,000 or $10,000, you can make a choice. We have arranged with the health providers that their regular fees, particularly doctors that usually charge, in this area, between $60 to $85, to charge one-fourth of that price, between $25 to $30. Out of that, they can deduct $5 or $10 additional as part of the insurance. So the total amount that they will be paying for visits will be between $15 and $20.

Mr. SCOTT. Thank you, Mr. Chairman.

Chairman MARTINEZ. Thank you, Mr. Scott.

I want to thank you both, especially Valerie for coming so far. I mean, that's a long way to come. But thank you very much, and your testimony here has been very helpful to us.

Ms. SHAW. Thank you. I also want to thank Sherry Pugh, who is the head of our California Trade Association for Economic Development Corporation.

Chairman MARTINEZ. Thank you.

Our next and final witness is Ms. Therese Mierswa, and she is from the First Chicago Bank, Chicago, Illinois.

STATEMENT OF THERESE MIERSWA, FIRST CHICAGO BANK, CHICAGO, ILLINOIS

Ms. MIERSWA. Thank you. I promise, even though I'm a panel of one, not to take up everyone's time. I am going to stick to the 5 minutes; I won't go 15.

Chairman MARTINEZ. Well, it's quite interesting, you know, that First Chicago, a bank so large has actually involved itself in activities with CDCs, and that's very meritorious.

Ms. MIERSWA. Well, I was actually very excited, because I came from the not-for-profit community to work at First Chicago, and that was one of the reasons I decided to work there is they had already had a history of involvement which I felt I could leverage even further.

As you stated, my name is Therese M. Mierswa, and I am the vice president of corporate and community affairs at First Chicago Bank, which has been known also as the First National Bank of Chicago to many of you. I am pleased to be here today to share with you some of our experiences with CDC corporations.

In Chicago, as you well know from previous testimony last year, CDCs play a very critical role in neighborhood revitalization. It's not, though, only in Chicago neighborhoods; it's also in some of the smaller but older suburban communities. And they are addressing those needs that we saw many years ago in the larger cities, which are now becoming really evident in some of the smaller suburban communities as well.

Let me first say that H.R. 818 provides the ability for CDCs to strengthen and expand their role as community facilitator and

broker, and it would allow a greater leverage of private dollars by providing the necessary subsidy that is often the basis for the economic development project in a low and moderate income area.

I feel that this legislation would also encourage CDCs to play a more pivotal role in the community development plans and projects that we have heard so much about today. And that's a very necessary ingredient for the long-term viability of neighborhoods. The ability of CDCs to bring some funds of their own to the table will even attract a greater participation from the private sector than has already occurred.

I was really delighted to be the last person on this panel, to hear some new ideas that are going on throughout different communities. And I want to say that I would underscore everything that all the CDCs have said today regarding the barriers that they see and the needs that they feel are critical for their continued involvement in the community. I can't speak for the CDC community in Chicago, but I am fairly sure that they would say that those are the same needs that they see there as well.

Let me just put in context what you mentioned earlier about First Chicago being a big institution. We have assets of nearly $50 billion, and we are the largest financial institution in the Midwest that offers a complete line of corporate and retail products. And that includes over 77 retail locations serving Chicago metropolitan communities.

My personal job at First Chicago is to implement one of our important strategic goals, and that is increasing the accessibility of credit for consumers and small businesses in the Chicago area. One of the best ways that we are able to do this has been through the involvement with CDCs in, particularly, low and moderate income neighborhoods and, as someone reminded me today, also in many of the minority communities where, as a large institution that is not a minority institution, we might not have had access originally.

Although, if you read the testimony, you will see that we have had a good relationship in the South Side African-American community for a long time.

Most of the relationships that we have with CDCs began in the early 1970s when we had a development corporation called the First Chicago Neighborhood Development Corporation. And we acted as a limited partner and a technical assistance provider to several low-income multifamily housing developments that were initiated by CDCs that were just emerging.

Today, First Chicago's share in most of these arrangements have been bought out by the local CDC, who now has complete control, community control of those particular low-income projects, although, we continue to fund and support most of those CDCs through grants and technical assistance, as requested. And, frankly, if they need other types of assistance, we are always interested in listening and finding out how we can expand our role as well.

Let me briefly state that, over the years, our relationship with CDCs has continued to change and grow. In 1984, we established a neighborhood lending program, primarily at the request of CDCs to target our financing of multifamily low-income properties, mixed use buildings, which is a very big type of property we see in Chica-

go and which didn't get adequate funding in the past, fixed asset financing, and also commercial economic development financing.

Today we have relationships with over 225 community-based organizations, most of which are CDCs, and that has continued through our neighborhood lending program, as well as through the grants that we do make to most of these organizations.

I stated generally the importance of CDCs in neighborhood economic development. Let me just specifically say that CDCs are often the coordinators and the seeds of empowerment that draw together the community, the public sector, and the private resources, as was said earlier. And there is evidence of their success in many of the neighborhoods which are served by First Chicago.

Our officers serve on the boards of over 100 community-based not-for-profits. Since 1982, we have supported these particular groups that I mentioned earlier to the tune of $5.7 million. But, frankly, that's really not enough. Other institutions in Chicago have supported them, as well, and foundations, but it's not enough.

CDCs are educators and technical assistance providers for small business, local entrepreneurs, and home seekers. We have used them as a valuable resource for us in doing some prepurchase counseling and as loan packagers for our neighborhood lending program. We have lent over $17.4 million to CDCs through our neighborhood lending program. Our default rate has not been prohibitive compared to our lending to for-profit developers, and we are going to be raising our commitment to this type of a program this year, as we reach our initial $225 million targeted resources.

Chairman MARTINEZ. Let me back up a minute.

Ms. MIERSWA. Sure.

Chairman MARTINEZ. Did you say that your default hasn't been as high?

Ms. MIERSWA. No, it has been—frankly, I don't have the specific figures. It's hard to pull some of this out. But we don't see the lending to CDCs as any different than lending to a for-profit developer, in terms of the default rate.

Our CDCs, with respect to our neighborhood lending program, in addition to being packagers, also serve on a review board. They guide us as we make these loans to make sure that we are taking into consideration the affordability of the low-income housing projects and making sure that the commercial real estate development projects that we fund are actually having an important impact on the community.

CDCs are financial intermediaries and seed funders for consumers and small business, and they play a role, in Chicago, funding the types of activities that really are not, at this point, what I would call bankable, start-up businesses, loans for $500 to a person that wants to expand in a micro capacity. We have supported those efforts through CANDO, in particular, now is a new program, the Women's Business Development Center, WECEP, are a few of the names in Chicago.

We see they play a very important role, such an important role that we are in the process right now, in the Little Village community in which we work, of working with our partnership—I will explain a little bit more about that after I finish this comment—to put together a micro loan pool just for that particular community,

to help the emerging businesses there begin to start up. This would not be banking money, it would be, again, private funds from our foundation or program-related investments.

I will speak a little bit about the partnership, because that's probably a good example of how CDCs are advocates for what I would call disenfranchised populations. We have targeted two neighborhoods, the Little Village community, which is a predominantly Mexican-American community, and the South Side partnership, which covers two communities in Chicago which are predominantly African-American.

That partnership is not a formal, legal partnership, but rather it's a team effort of the leaders, a lot of whom are CDCs, and the bank, finding out exactly what are the needs of the community and working together with the community to make things happen. That includes activities such as promoting better schools, putting together some tutoring programs for students, putting together a plan for a commercial strip.

In the African-American community right now, we are working on a plan to put together a program for a cultural-based economic development project which will bring jobs into the community.

Without the CDCs and without the local community, however, this really wouldn't take place.

Let me conclude by saying that the potential for CDCs to do more is there. They are job producers, they are producers of affordable housing, and they are producers of positive neighborhood revitalization. But there is also the potential for them to even produce more.

The LISC fund for economic development and community development has helped train many emerging CDCs in Chicago, but their efforts need to be strengthened as the CDC's staff changes, which happens in all types of corporations and organizations, and the expertise needs to grow.

I want to thank you for inviting us here today to talk about our experience. I have included a copy of the bank's most recent CRA statement, which outlines some of the CDC efforts in Chicago and our ability to relate with them and the use that we have made of their services. We also have included a copy of our neighborhood lending brochure and some of our corporate contributions guidelines and products that we have worked with the CDCs to develop for providing affordable lending to our communities.

Any questions I would welcome.

[The prepared statement of Therese Mierswa follows:]

Statement of Therese M. Mierswa, Vice President, The First National Bank of Chicago

Good morning, my name is Therese M. Mierswa. I am Vice President of Corporate and Community Affairs at the First Chicago Bank which also is known as the First National Bank of Chicago. I am pleased to be here today to share with you some of our experiences with community development corporations [CDCs]. In Chicago many of these organizations play a critical role in the long-term economic viability of neighborhoods.

H.R. 818, the Community Services Empowerment Amendments of 1993, provides the ability for CDCs to strengthen and expand their role as a community facilitator and broker. It would allow a greater leverage of private dollars by providing the necessary subsidy that often is the basis for the success of an economic development project in a low and moderate income area. This legislation would encourage CDCs

to continue to play a pivotal role in community development plans and projects, a necessary ingredient for the long-term viability of neighborhood revitalization efforts. The ability of CDCs to bring funds to the table will increase their potential to attract quality partners in the private sector and leverage more dollars from their private sector partners. We support passage of this legislation.

I will focus my remarks today on a number of the relationships which First Chicago has with local CDCs. I think that you will see as I outline each of these associations how important the role of the CDC was to the success of the efforts, and of course, I will be happy to elaborate on any of these relationships in the question and answer period.

Let me begin by telling you a little about First Chicago in order to put this all in context. First Chicago is the largest financial institution in the Midwest offering a complete line of corporate and retail products. The bank has assets of nearly $50,000,000,000. This figure reflects both our corporate banking business as well as retail activity from the over 77 retail locations which serve metropolitan Chicago communities,

My job is to coordinate the implementation of one of First Chicago's strategic goals: increasing the accessibility of credit for consumers and small businesses in Chicago area communities. One of the primary ways in which this is most successfully accomplished in low and moderate income areas is through the relationships which we've established with community based development corporations. These relationships have been built on a mutual self-interest in the revitalization of declining neighborhoods, and in several instances have continued to grow for more than 20 years.

A History of Civic Leadership

First Chicago has a history of civic leadership in Chicago. Senior management has represented the bank on the boards of directors of the numerous nonprofit institutions which shaped the reputation of the city as a leader in the financial and cultural worlds. Today bank officers serve on the boards of nearly 300 nonprofit organizations including 100 community based groups. First Chicago was ranked as the number one financial institution contributor to community based development organizations in Chicago according to a 1991 report entitled "The Long Term Future of Resources for Chicago's Community Development Corporations" which was undertaken by the Woodstock Institute for The John D. and Catherine T. MacArthur Foundation. Our total community and neighborhood contributions since 1982 totals over $5.7 million.

The bank always has sought to serve all populations. During times when some Chicago institutions limited their services to Caucasian customers, First Chicago was recognized as a bank in which African-American financial business was welcomed. We are proud of our 21 percent of retail market share in the southside Chicago African-American community. Similarly, through a lending unit established in 1989 to serve the needs of minority/women-owned businesses, First Chicago has made loan commitments to this target population which exceed $35 million.

Since the easing of Illinois branch banking restrictions in late 1991, the bank has worked to improve our services to the minority community by expanding our physical presence in predominantly minority neighborhoods. Our efforts include numerous ATM facilities, locations in both the Hispanic-American and African-American communities which were acquired through RTC acquisition, and the construction of a full service *de novo* branch in the heart of Chicago's southside African-American community.

The bank has initiated a myriad of efforts to reach out to low-income communities, as well. A 1989 study of Low Income Credit Needs in Cook County which was undertaken by Yankelovich, White Clancy, Schulman at First Chicago's request, indicated that education regarding financial services and products was a critical need and desire of low-income residents. As a result, First Chicago introduced the BankMobile. This vehicle operates year-round 7-days-a-week, bringing First Chicago credit product information and deposit account assistance directly to the neighborhoods.

BankMobile staff, who are knowledgeable in lending, play a key role in the bank's relationship with local community organizations. BankMobile staff participate in community sponsored home ownership workshops and serve as a resource for small business owners in the neighborhoods. Perhaps the most interesting event in which the BankMobile played a role during 1992, was the People's Housing Youth Fair. BankMobile staff presented information on the credit and financial process to participating youth as part of an exploration of activities which could be included in

the Youth Center which People's Housing is developing in the Chicago's Roger's Park community.

The Low Income Credit Study also pointed out the need for retail financial products designed to meet the needs of this target population. First Chicago offers the First Advantage no fee checking account with no minimum balance requirements, government check cashing, low balance lines of credit, flexible loan underwriting criteria, special loan programs offered in conjunction with community-based counseling efforts, government insured retail and small business loans and financing for affordable housing development through our neighborhood lending division. Information regarding these products is included as an attachment to this testimony.

First Chicago's Relationship with Community Based Developers [CDC]

Perhaps the most significant sign of the bank's efforts to reach out to low and moderate income communities is the bank's relationship with over 225 community-based nonprofit organizations, many of which are CDCs. First Chicago has maintained relationships with CDCs since the late 1970s. The bank's own development subsidiary, First Chicago Neighborhood Development Corporation [FCNDC], acted as limited partner and technical assistance provider to several low income multi-family housing developments initiated by local CDCs. Many of the initial projects developed by CDCs such as Peoples Reinvestment and Development Effort [PRIDE] and Neighborhood Housing Services of Chicago Development Corporation [NHSDC], were in partnership with First Chicago.

The Neighborhood Lending Program

Our relationships with CDCs has continued to change and grow over the years. In 1984 a number of CDCs and community-based organizations worked with First Chicago to expand the bank's credit products to include financing for the purchase and rehabilitation of low and moderate income multi-family housing, mixed use-residential and commercial properties, and inventory and fixed asset expansion. As a result, the neighborhood lending division was created with an initial 5-year commitment of $150 million for targeted real estate and fixed asset financing. This commitment was subsequently expanded to $225 million in 1989 and is anticipated to grow again in the next few months.

Representatives from seven Chicago CDCs serve on a Neighborhood Lending Review Board and guide the bank as it finances economic development and affordable housing projects. Their role is to ensure that anticipated rents in newly rehabilitated residential properties are affordable for the neighborhood and will not fuel gentrification. In the case of financing for economic development, the review board members attest to the positive effect that the project will have on the area. A number of CDCs also are qualified loan packagers for the program.

To date, nearly $17.4 million of the $189 million loans underwritten through the First Chicago Neighborhood Lending Division have been made to Chicago nonprofit development organizations. Of this $17.4 million, the majority of the financing has been for the rehabilitation and purchase of affordable multi-family housing. The units financed through First Chicago represent only a portion of the multi-family housing in Chicago developed by nonprofit CDCs. The Chicago Rehab Network, a coalition of Chicago housing CDCs, estimates that over 6,400 units of affordable multi-family housing in Chicago have been developed by nonprofit CDCs.

Some of the residential projects developed under the auspices of nonprofit CDCs have addressed the needs of the very low income. The ability of the nonprofit CDC to leverage community resources, foundation grants and in some instances *pro bono* services keeps project development costs low. However, CDCs continue to wrestle with the long-term viability of low income housing as ongoing costs for management often tax the building's cash flow. In Chicago it always has been the nonprofit CDC which has discovered a new way to leverage various financing sources or to cut costs to fill the affordable housing gap. The Chicago LISC Fund for Community Development reports that CDCs have a more difficult time today creating affordable housing due to the fact that subsidy dollars are scarce.

First Chicago has financed approximately $5.6 million in CDC sponsored commercial and mixed use neighborhood real estate development projects through the Neighborhood Lending Division. In addition to the obvious neighborhood improvement, these efforts have created numerous jobs for local residents. Most of these projects have not had the same public/private leverage as housing development credit packages. The result has been that while there is a willingness on the part of financial institutions to finance commercial development and a desire for CDCs to undertake more real estate economic development, the surface of economic development opportunities barely has been scratched.

Neighborhood "Partnerships"

In 1988, the bank formed "partnerships" with two neighborhoods in Chicago—Little Village, an Hispanic-American community, and Southside, which is home to a majority of African-American residents. Several of the major players in each of these neighborhood "partnerships" are CDCs. The expertise of these local partners in the development needs of the neighborhood has helped to leverage the bank's financial and technical resources for the betterment of the community.

Senior management meets at least twice a month with neighborhood business and community leader partners in each of the two neighborhoods to discuss issues affecting the long-term viability of each community. While initially concerns centered around quality of education and public school reform, the "partnership" in each of the communities also has focused on economic development projects.

In Little Village, the bank and its community partners hired a planning consultant to assist the community with recommendations for improving the major local commercial strip. The community partners worked closely with the consultants to provide the local perspective. The consultants in turn provided technical assistance to the local groups, many of whom have begun to initiate development projects.

The Southside "partnership" is in the process of planning for the economic development of its neighborhood. Utilizing the experience of the director of an established CDC, Greater Southwest Development Corporation, the "partnership" prepared a culture-based economic development plan for business and job creation in conjunction with a major civic project. Emerging CDCs located in the neighborhood will play a key role in leveraging resources and executing the economic development plan. The outcome is expected to boost the local economy of the neighborhood and provide a vehicle for the overall development plan to be accountable to existing residents.

CDC as Referral Source for Small Business

The CDC also can be a valuable source for referring small business. Since many CDCs provide supportive services for local business, they are often the business owner's first point of contact when the need for financing arises. Many CDCs, such as the Lawrence Avenue Development Corporation, serve as financial counselors and loan packagers for small business deals. A number of CDCs have assisted small business owners to prepare and implement business plans. Commercial loan packages which have received guidance from CDCs knowledgeable in financial institution application procedures often are stronger.

However, the income produced from this activity is insufficient to support the perceived volume of business in neighborhoods. Subsequently, the number of financing deals for small business expansion or inventory which have been referred to First Chicago has been small. Additionally, many small business deals lack the cash flow to support institutional sources of debt in the needed amount. Since there are few sources for leveraging private dollars, often the deals are not underwritten.

Loan Pools for Start-up and Emerging Small Business

Most recently, a number of CDCs in Chicago have created loan pools through grants and equity investments by corporations, foundations and financial institutions. The purpose of these loan pools is to provide financing for entrepreneurs and small business which are not yet bankable due to their high risk position as start-up ventures, or for whom the cost of a loan at a traditional financial institution would be prohibitive because of the financial position of the small business. First Chicago has been involved with a number of these efforts as we seek ways to bring these ventures into the credit mainstream.

The Chicago Association of Neighborhood Development Organizations [CANDO], in conjunction with the State Treasurer's Office, has established a Self-Employment Loan Fund [SELF] for graduates of self-employment training programs offered by Olive-Harvey College, New City YMCA LEED Council, Uptown Center Hull House and Bethel New Life. The training program which lasts for 16 weeks, prepares individuals who have a skill or service and a desire to begin a business, in the key aspects of business development. Qualified entrepreneurs who complete the training program are eligible for loans up to $10,000. First Chicago through its foundation has contributed to the pool.

The bank also has supported the efforts of The Women's Business Development Center [WBDC] and the Women's Self Employment Program [WESAP] which have initiated loan pools for women entrepreneurs and start-up business, respectively. Currently First Chicago is working with South Shore Advisory Services and Accion to develop a "micro-loan" program in Little Village. The result of all of these efforts is anticipated to be much needed jobs for low income and minority individuals. But,

each of these initiatives requires considerable time and effort which only increases the cost of credit from profit-making institutions if there is not a CDC intermediary involved.

The Importance of CDCs in Neighborhood Economic Development

CDCs play a vital role in neighborhood economic development. Often they are at the forefront of the local revitalization movement. CDCs are the coordinators and the seeds of empowerment that draw together the community, the public sector and private resources. There is evidence of their success in many of the neighborhoods which are served by First Chicago and we have supported these efforts through operating grants and employee involvement.

CDCs are educators and technical assistance providers for small business, local entrepreneurs and homeseekers. They are a trusted source of information in the community. Frequently CDCs provide a valuable role preparing those seeking financing to undertake the loan process. First Chicago utilizes the expertise of a number of CDCs as pre-purchase counselors and loan packagers.

CDCs are financial intermediaries and seed funders for consumers and small businesses. CDCs leverage private resources into high risk revolving loan pools for business start-ups, homeowner downpayment assistance, pre-development costs and other credit needs which financial institutions are not able to finance. First Chicago has provided funds for the creation of such loan pools to be administered by CDCs.

CDCs are advocates for the disenfranchised. They play an important role in communicating the needs of those who are not served by traditional financial and political systems. First Chicago has relied upon the first-hand information about neighborhood credit needs that Chicago CDCs have brought to the bank. Their input has been a factor in several decisions to review and expand financial services, particularly to low- and moderate-income communities.

CDCs are producers; producers of jobs, producers of affordable housing, producers of positive neighborhood revitalization. Chicago CDCs have been good neighborhood partners with First Chicago in our mutual goal to improve local economies.

We thank you for the opportunity to share our experiences of working with many fine Chicago CDCs. I have included a copy of the bank's most recent CRA statement which includes a list of the organizations with which First Chicago has a relationship and a description of our overall reinvestment activities, a Neighborhood Lending Division brochure, First Chicago's Corporate Contributions Guidelines and as previously mentioned, a description of our depository products. I welcome your questions regarding this testimony.

Chairman MARTINEZ. The first one is, do you know of any other major bank, large bank like yours—because you have heard earlier that the big problem in most of our minority communities is that conventional banks really don't want to make loans there. Even though it's illegal, they redline the area.

So it comes as a gratifying thing to know and understand that a major bank, one as large First Chicago, is involved. And the other gratifying thing is that they have had the wisdom to see the value of CDCs and how that can really empower neighborhoods and enfranchise the people.

You know, we use that word over and over again, "enfranchising" people, and yet nobody is getting enfranchised, because the people with the financial resources or the technical assistance and advice seldom come into these neighborhoods and do that that needs to be done for them to be able to be empowered or enfranchised. It seems like your bank has.

Do you know of any other major bank or even corporation that is doing the same thing anywhere else?

Ms. MIERSWA. I, frankly, look very closely at Chicago more than at different banks in the Nation.

Chairman MARTINEZ. Have you heard of any?

Ms. MIERSWA. I have heard testimony by other banks. I think there are efforts throughout. I guess you really would have ask

that to the community and see how they feel that response has been.

Chairman MARTINEZ. Well, maybe something is beginning to stir, because we heard earlier today Disney gave—what was it—a million-dollar grant to a church to start a loan process for that community and also Bank of America has.

Ms. MIERSWA. Right. I think a lot of institutions are trying hard to find the niche that they can play in the community, based upon what the different communities are looking for.

Chairman MARTINEZ. Mr. Scott.

Mr. SCOTT. I just have two questions, I guess, Mr. Chairman.

The first is, once you started your own CDC——

Ms. MIERSWA. Right.

Mr. SCOTT. [continuing] how much money did you put in to start off with, and how much have you put in since then?

Ms. MIERSWA. I thought you might ask that question, and that's before I even came to the bank. I think I was still in high school then. I don't know the answer to that question, but I can certainly find that out.

Let me tell you a little bit about the CDC that we had. We started it to play this role as a limited partner, because that's what the community needed at that time. It actually does not operate actively any longer, because the community became sophisticated enough to do its own development rather than ask for the neighborhood lending program.

So what has happened now is that revenues, as they came in from the limited partnerships, were used to reinvest back into the community, and we predominantly expanded our involvement through the Chicago Equity Fund, which is similar to the National Equity Fund, through a community investment corporation, which is a consortium of banks making loans in the community. So it's not really active any longer.

Mr. SCOTT. Consortium of banks making loans in the area.

Ms. MIERSWA. I always find that amusing as well. But there are some areas where the amount of the loan needed to be larger, so the banks put their funds together.

Mr. SCOTT. Could the CRA be used to encourage other banks to do the same thing that you have done?

Ms. MIERSWA. Well, you know, that's an interesting question, because I think probably most people would think, in my position, that their jobs were contingent upon the CRA. I think at First Chicago our commitment is to do what we're doing beyond the CRA. And I guess I really can't speak for another institution. I think each institution has a pretty individual perspective on that.

Mr. SCOTT. Well, I would just say, Mr. Chairman, I think if the CRA were enforced better, I think we could have more banks doing what Chicago is doing on its own.

Chairman MARTINEZ. Well, it's interesting that they are doing it, and there is a great potential for a lot of assistance other than Federal dollars coming into the community that I think we ought to pursue.

I have a series of questions that I'm going to give you so that we don't need to take up the time here today, because I see we're going into session now.

Ms. MIERSWA. Sure. We can provide you with that.

Chairman MARTINEZ. Any second they will be calling for us to go down there and vote for some silly thing.

[Laughter.]

Chairman MARTINEZ. Like the journal. Every day they vote on the journal, and every day the journal passes. I guess some days they just want to find out how many of us are here. I don't know.

But, at any rate, I want to let you have these questions. You, then, can just submit in writing those questions to us.

Ms. MIERSWA. Sure. No problem.

Chairman MARTINEZ. And the record will remain open to receive these back so it will be a part of the record.

Ms. MIERSWA. Thank you very much.

Chairman MARTINEZ. But I want to commend you, too, for your activities in that area.

Just one last question: Do you provide a lot of technical assistance now, like in regard to tax responsibilities, and all that, to the CDCs?

Ms. MIERSWA. I don't think we have ever been asked that question.

Chairman MARTINEZ. Pardon?

Ms. MIERSWA. I don't think we have ever been asked to give tax advice.

Chairman MARTINEZ. You never have?

Ms. MIERSWA. They have mostly asked us for advice in terms of structuring loans.

Chairman MARTINEZ. All right. Thank you very much.

We are now adjourned.

[Whereupon, at 12:05 p.m., the subcommittee was adjourned, subject to the call of the Chair.]

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